

JPRS-CAR-93-053

26 July 1993



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# ***JPRS Report***

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# **China**

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# China

JPRS-CAR-93-053

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26 July 1993

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## NATIONAL AFFAIRS, POLICY

**State Council Researcher on Economic Operations**  
*93CE0593A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese No 2, 24 Mar 93 pp 18-22*

[Article by Zhang Tai (1728 3141) of the State Council Research Office; Jiang Dongsheng (5592 2639 3932), editor: "Three New Changes in China's Economic Operating Mechanisms and Growth Characteristics"]

[Text] After improvement and rectification was essentially concluded, China's economy began accelerated development. The second rapid growth year since the same period in 1978 came in 1992. At the same time, the fixed asset investment completion increase for units under the ownership of the whole people was 36.3 percent; net accumulated currency put into circulation was 38.16 billion yuan and various types of accumulated bank loans increased by 196.32 billion yuan, all the highest values seen in years. Regarding this there have constantly been people in Chinese economic theory circles and practical work sectors that have put out the warning that the economy is already heated or overheated, concerned that the results of improvement and rectification were forfeited too early, causing new inflation, and they have demanded that it be appropriately cooled off and the rate of economic growth controlled. But the actual situation is that the national economy is constantly heating up, economic growth is constantly accelerating, and there has not been a major imbalance in the main structural and proportional relations of the national economy and the overall economic situation is still essentially normal. Why is there such a big discrepancy between theoretical analysis and the actual situation? I believe that it is mainly because after entering the 1990's, China's economic operating mechanisms and growth characteristics have undergone a change from the 1980's, especially compared to 1984-1988. Analyses and forecasts based on past theoretical, experiential, and data relations have not been able to fully adapt to the new changes in the economic situation and can naturally produce rather great discrepancies in conclusions. To accurately analyze and judge the current macroeconomic situation and determine policy orientations it is crucial to seriously study the new changes exhibited in China's current economic operating mechanisms and growth characteristics.

I believe that there have been three changes in China's economic operating mechanisms and growth characteristics.

**I. There has been a great deal of progress in market oriented reforms and there have been remarkable increases in the scope and proportion of market adjustments in the economy.**

In fourteen years of reform and opening up, because of reform in such aspects as planning, price, circulation, financial, monetary, and state enterprise management systems, China has made rather great progress in becoming a commodity, monetary, and market economy, and the

effect of market mechanisms on economic growth is becoming ever more remarkable. In some areas of the economy they have even played a dominant role. The market has become a major force determining the prices of commodities and services and the allocation of economic resources, and guiding production and consumption.

The role of the plan and administrative directives is weakening and their scope is shrinking, and the scope and share of market adjustment is gradually expanding. Presently, the capital goods the State Planning Commission is responsible for balancing and allocating have been reduced to 22 from 256 in 1978, and the raw materials, machinery and electrical products for which departments conduct mandatory planned allocation have been reduced from 316 to 45, and the amount and scope of capital goods allocated in provincial plans also have been greatly reduced. Based on a rough estimate, the share of China's commodities presently regulated by the market has reached 80 percent or more. There are some coastal regions where the market economy is rather developed where the functioning of the economy relies more than 90 percent on market adjustment.

The pricing system and price forming mechanisms have changed greatly. From 1978 to 1991, the share of total retail sales of social commodities for which the government directly sets the price has gone down from 97 percent to 20.9 percent and market prices' share has risen from 3 percent to 68.8 percent. The remaining 10.3 percent are government guided prices. In total agricultural product purchases, the share of prices directly set by the government has gone down from 93.6 percent to 22.2 percent and market prices' share has risen from 5.6 percent to 57.8 percent. The remaining 20 percent are government guided prices. In the total producer prices of industry produced materials, the share of prices directly set by the government has gone down from nearly 100 percent to 36 percent and market prices' share has reached 45.7 percent. The remaining 18.3 percent are government guided prices. This year the state has further increased the structural adjustment of prices and has implemented central commodity price adjustment measures for grain, coal, oil (natural gas), and transportation, four categories with a major effect. After the vast majority of agricultural product and light industry product prices were freed up, in 1992 the prices of capital goods also were freed up rather extensively freed. The capital goods and transportation prices governed by the State Pricing Bureau and relevant departments were reduced to 89 from 737 in 1991, and 571 were delegated to enterprises to set the price and 22 were delegated to be governed by pricing departments of provinces, autonomous regions, and municipalities. The national unified highest producer price and selling price limits on such capital goods outside the plan as crude oil, refined oil, steel, pig iron, copper, aluminum, zinc, tin, nickel, soda ash, and caustic soda also were eliminated.

The functioning of China's economy has gone from being mainly regulated by the plan to being mainly regulated by the market. This a major achievement from

China's fourteen years of reform and opening up and is deeply in the background of the changes in many aspects of China's economic life. The national economy operating in the market economy model has different characteristics than the national economy operating in the planned economy model. The 14th National People's Congress clearly pointed out that the goal of China's economic system reform is to establish a new socialist market economy system. Further reform and opening up will be on the basis of persisting in basic socialist principles, further liberating thinking, and even more boldly introducing market mechanisms. It can be confirmed that in the future the transformation of China to a market economy will be further accelerated. Because market adjusting forces come from competition and market adjustments mainly regulate the functioning of the social economy by price changes and adjustments in beneficial relations connected with price changes, the market's transmission of economic information is more accurate and timely. So, compared to the planned economy, the market economy can more efficiently allocate resources to the social economy and more fully utilize the resources of the social economy. Increasing market adjustment's share in the economy also can increase the economy's vitality and inherent stability. Therefore, under similar resource conditions, it can support faster, more coordinated, more highly efficient development of the national economy. At the same time, we must fully recognize that the market economy is not a panacea for all ills. The plan has weaknesses and the market also has weaknesses and negative aspects. We draw support from the market economy in overcoming such abuses of the past product economy system as ossification and low efficiency of the economic life and lack of separation between the government and enterprises, but the market economy is by no means totally perfect. Engaging in the market economy is necessary for faster development of the Chinese economy, but after the market occupies a dominant position in the economy, what new changes could occur in the economic life and what new problems could it bring? We by no means have a very complete understanding regarding this. In the 1990's, on the one hand, we want to strengthen and promote the establishment of the hardware and software environment related to the market economy, actively promote the formation of the socialist large unified market, establish sound related economic laws and regulations, and fully utilize the role of market mechanisms in promoting the development of productive forces in society. On the other hand, we should actively investigate the forms and ways that the government can carry out macroeconomic control under market economy conditions, build up intermediate control experiences, and use the government's macroeconomic control to remedy the inadequacies of the market, correct the market's shortcomings, and create the conditions to fully utilize market mechanisms.

## II. Economic development has evolved from being driven by both investment and consumption in the 1980's to

being mainly driven by investment. This is the greatest characteristic of the first economic expansion of the 1990's.

The economic overheating of 1984-1988 was caused by the persistent and dramatically increased demand for consumer goods, especially durable consumer goods. Consumption grew faster than production and light industry grew faster than heavy industry, leading to inflation in both investment and consumption, and the supply of capital goods and subsistence materials was totally short and totally tight, and the social economy was totally overheated. From 1984 through 1988, the average annual increase in total social commodity retail sales, fixed asset investments in units owned by the whole people, light industry output value, and heavy industry output value were 19.6 percent, 23.7 percent, 18.5 percent, and 16.5 percent, respectively. The 1992 economic heating is characterized by the rapid increase in investment bringing about the faster development of heavy industry. There is a rapid increase in the investment demand, the growth in the consumer demand is relatively steady, and the economic life by no means gives the appearance of totally overheating. In the first to third quarters of 1992, total social commodity retail sales, fixed asset investment in units under the ownership of the whole people, light industry output value, and heavy industry output value increased over the same period the previous year by 14.4 percent, 33 percent, 17 percent, and 21.5 percent, respectively.

Beginning in the second quarter of 1991, China's fixed asset investment clearly rose, and since 1992, the rate of increase has further accelerated. In the first to third quarters totals for 1992, fixed asset investment completed by units under the ownership of the whole people reached 241.4 billion yuan, a 36.3 percent increase over the same period the previous year. The rapid increase in investment triggered expanded production and demand for investment products and raw materials. In the totals for first to third quarters of last year, heavy industry production increased by 21.5 percent, 4.5 percentage points higher than the rate of increase for light industry. Production of steel increased by 18.5 percent, ten types of nonferrous metals increased by 16.9 percent, cement increased by 21.6 percent, automobiles increased by 49.6 percent, and the rates of increase for products such as alternating current generators, industrial furnaces, and metal cutting machine tools were all 25 percent or more. Capital goods stocks declined. Among principal materials, the stocks of pig iron, steel, wood, and numerous nonferrous metals all declined somewhat. Among these steel stocks especially declined quite a good deal. At the end of September, the guaranteed days of steel stocks declined by more than 50 days from the same period the previous year and the price of capital goods was rather greatly inflated. As regards the material system, in quarters one and two the prices of capital goods increased by

about 6 percent, and in quarter three they exceeded 15 percent. Of 74 principal materials, nearly four-fifths had price rises.

In strong contrast to the rapid growth of investment, in 1992 there was mild growth in consumption and the situation with a greater supply of consumer goods than demand has not changed. In first to third quarters, total retail sales of social commodities increased by 14.4 percent. After the price factor is deducted, they only increased by 9.2 percent, much lower than the growth rate for light industry production. The 1980 situation with tens of thousands competing to purchase consumer goods, especially durable consumer goods early on did not repeat itself. Stocks of consumer goods were ample. At the end of August, internal trade stocks were the equivalent sales volume for more than four months. The supply of approximately 90 percent of the consumer goods on the market exceeded the demand or the supply and demand were essentially even. Because there was a mild increase in consumption, rises in consumer goods prices were mild. Totals for the first nine months showed living expenses of residents rose by 5.6 percent compared to the same period last year, and retail prices of social commodities rose 4.9 percent. Within that, retail prices of consumer goods rose 5.2 percent and the prices of food, clothing, daily use articles rose 7.3 percent, 2.8 percent, and 1.3 percent, respectively. Moreover, the main cause of the rise in consumer goods prices was structural adjustment. The effect of the pull of demand and spontaneous inflation was very small.

From the analysis above it can be seen that with the consumption of China's residents entering the transitional stage from comfortably well-off to well-fed and well-clothed, the early maturing consumption and excessive inflation that troubled us in the 1980's could very well be replaced by inadequate consumption in the early 1990's. The pull of the consumption demand, especially the demand for durable consumer goods, on economic growth has clearly weakened, and inadequate consumption could become a new bottleneck restricting growth of the national economy in the 1990's. Regarding market sales, most consumer goods have become a buyers' market. According to a Ministry of Commerce analysis of the supply and demand of 695 major commodities in commercial sector business in the last half of 1992, supply did not meet demand for 80 commodities, 11.5 percent of the commodities listed, an increase of 0.6 percentage point over the first half of the year; supply and demand were essentially even for 378 commodities, 54.4 percent, a decline of 2.3 percentage points; and supply exceeded demand for 237 commodities, 34.1 percent, a 1.7 percentage point increase. Moreover, among the commodities for which supply did not meet demand, a rather large share were agricultural products and byproducts and reprocessed resources, 15.8 percent and 67.2 percent of each category, respectively. Some 539 of these 695 major commodities were industrial products. In only 5 percent of these commodities did the

supply not meet the demand. With further intensification and initiation of market oriented reforms, investment and consumption could well exhibit some other new characteristics. The pull of consumer demand on the growth of the national economy is mainly accomplished through the demand for durable consumer goods. The amount of durable consumer goods presently owned by urban residents is already rather high. At the end of 1991, on average every 100 urban households had 80.6 washing machines, 48.7 refrigerators, and 68.4 color televisions, and the growth of demand was stable and mild. The amount of durable consumer goods owned by rural residents was rather small. At the end of 1991, on average every 100 rural households had 11 washing machines, 1.6 refrigerators, and 6.4 color televisions, but the consumption atmosphere and consumption conditions were restricted by such things as some regions' lacking water and lacking electricity, as well as low income growth. In the near future it will be difficult to have a rather large increase in the demand for durable consumer goods. Moreover, with the discrepancy in resident income levels gradually widening, it will be very difficult to again form a collective demand for one or several durable consumer goods, such as small automobiles and other new expensive household appliances and create new consumer hot points and urge hot consumer goods to develop into growing points and mainstay industries for the national economy. At the same time, with the implementation of some reform measures one after the other in recent years, individual residents must share some of the expenses that were assumed by the state in the past, and such things as "stock fever" and real estate fever" also have increased the share of investment expenses in resident expenses, fractionalizing purchasing power. These also can restrain the growth of residents' demand for durable consumer goods. Even if this portion of long-term and investment expenses is mainly paid from surplus purchasing power, it also restrains residents' immediate consumption demand.

We have studied the factors restricting the development of production and increased supply rather extensively, but those restricting demand, especially the growth of consumer demand, we have studied comparatively little. Although the excessively fast growth in the consumer demand in the 1980's was a major factor triggering several contradictions in the economic life of that time, the ultimate goal of production is consumption and consumption is the ultimate driving force for the development of production. Without growth of consumption, the sustained growth of production also is impossible. If it is improperly handled, consumption also can become a bottleneck restricting economic development. The present situation with the rapid growth of production and mild growth of consumer demand poses a new requirement for controlling demand. The principle for controlling demand should be to maintain the appropriate growth of demand to act as the necessary pulling force for economic growth as well as the development of production. This should not lead to excessive stimulation of demand and again bring about newly inflated

demand, destroying the generally advantageous situation of essential balance between supply and demand, which could become a new destabilizing factor affecting economic growth. Whether or not we can formulate and implement a correct policy to control demand will directly affect the accomplishment of the Eighth Five-Year Plan and the 10-Year Program in the national economy. Ultimately, demand generally includes consumer demand, investment demand, and export demand, and the share of export demand in final demands is rather small. As regards consumer demand, the important thing is to select the proper consumption strategy to guide consumption and maintain consumer growth appropriate to increases in the production of consumer materials. We cannot simply follow the methods of the 1980's as soon as there are symptoms that the economy is heating up or overheating, lightly bring pressure to bear on the consumer demand. Overall control of the investment demand, of course, is important, but improving the investment structure is even more urgent. We still lack effective measures for this. The government is obviously at a loss in this important area of macroeconomic control. Moreover, we also must recognize that in the present situation with mild consumer growth and exports affected by various restrictive factors, and the difficulty of having extensive growth in the near term, suitable increases in investments are necessary and appropriate. This way we can guarantee suitable growth in demand and economic growth can again rise to a new level, establishing a solid material foundation for the accomplishment of the second step strategic goals.

### **III. Diversification of the main body of the economy continues to grow and the share of the nonpublic component of the economy continues to rise.**

The proportion of workers in society in the public ownership economy (that is, the economy under the ownership of the whole people and collective ownership) fell from 24.9 percent in 1988 to 24.5 percent in 1991; its share in the gross industrial output fell from 92.9 percent in 1988 to 88.6 percent in 1991; and its share in total retail sales of social commodities fell from 73.8 percent in 1988 to 70.2 percent in 1991. Moreover, if we consider that the public ownership economy is presently lacking in vitality, its business management is inflexible, and its self-accumulation and self-development capabilities are not strong, the actual effect of the public ownership economic component on economic growth could be less than the statistical data indicate.

A direct reason for the change in the structure of the ownership system is the obvious discrepancy in the rate of growth of various economic components. This discrepancy in the rate of growth has gradually increased, ultimately bringing about a remarkable change in the ownership structure. In the twelve years from 1981 through 1991, as far as gross industrial output is concerned, the average annual increases in the gross industrial output of the economic components under the ownership of the whole people, collective ownership,

urban and rural individual ownership, and other economic components were 7.8 percent, 18.6 percent, 95.2 percent, and 43.5 percent, respectively. As regards total retail sales of social commodities, the average annual rate of increase in total retail sales of commodities of units under the ownership of the whole people, collective ownership, joint ventures, and individual industrial and commercial households were 11.9 percent, 10.4 percent, 55.5 percent, and 54.9 percent, respectively. There are presently many different opinions on the rapid decline in the share of the public ownership economy, especially the state economy. We believe that diversification of the main body of the economy and diversification of the forms of ownership essentially conform to the demands of the present stage of China's level and development of productive forces and conform to the principle of the "three beneficials." First, this change in the structure of ownership is an inevitable result of implementing the policy of reform and opening up. If after 1978, on the ownership issue we still persisted in the "one big, two publics," and excluded the development of the non-public ownership economic component, not only could the economy not have achieved such great success, but there also would have been no way to carry out reform and opening up themselves. In addition, change in the ownership structure, also has been necessary for the development of the socialist market economy. An excessively unitary ownership structure could restrict the development of the relationship between commodities and currency. Where the public ownership economy has absolute dominance, especially where the state economy adopts direct state ownership and direct management, it is difficult to form a true commodity exchange relationship and true competition.

In more than ten years of restoration and development, the nonpublic ownership economic component has become an organic component part of China's socialist economy. In several aspects, including giving impetus to the development of the national economy, introducing advanced technology and management methods, enlivening the urban and the rural market, making people's lives convenient, and expanding employment avenues, it has played and is playing a beneficial role. Certainly, the excessively rapid decline of the share of the public ownership component of the economy exposes problems such as that the public ownership economy, especially the state economy, lacks vitality, is low in performance, is overburdened, and lacks competitiveness. The non-public ownership economic component also has some problems in development, such as evading taxes, mixing the true and the fake, and driving up prices. But we must point out that these all are problems in development and problems in advancing and they can be solved and corrected by further intensifying reform and broadening opening up, transforming operating mechanisms of state enterprises, and improving administration and strictly enforcing laws, and definitely cannot be used as an excuse for restricting the development of the nonpublic ownership economy.

The share of the nonpublic economic component has risen, accelerating the diversification of the main body of the economy and making important changes in the functioning of the main body of the Chinese economy. The first is diversification of the sources of investment funds. The share of direct state investment has declined. Enterprises can use multiple means to raise money to establish funds, including their own funds, bank loans, and foreign investment, as well as issuing stocks and bonds. In the first nine months of 1992, 10.6 percent of investment funds for capital construction, transformation, and renovations of units under the ownership of the whole people came from funds in the state budget; 31.4 percent came from domestic loans; 7.2 percent used foreign funds; 41.6 percent were funds they raised themselves; and 9.2 percent were other funds. The second is decentralization of policymaking. The state has delegated investment examination and approval authority several times and the policymaking power of enterprises in routine production and operations also has increased. The third is multiple assumption of risks. "Three kinds of partially or wholly foreign owned" enterprises and individual household and privately operated enterprises wanting to assume the total risk of policymaking, and even state enterprises where the state alone assumes the total risk are gradually changing to many, including the state, banks, enterprises other investors, and enterprise employees, assuming the risk. The fourth is diversification of benefit allocations. In the allocation of state, enterprise, and individual employee benefits, the state's share is declining and the share of the collective and individual employees is rising, especially the direct connection of the income of enterprise leaders and individual employees with enterprise business and performance.

The structure of the ownership system is changing and making new and higher demands for government macroeconomic control of the national economy. Normally the nonpublic economy does not receive parity supply of energy, raw materials, and transportation services in the state plan and normally they do not assume the obligations of the government mandatory plan, but organize production and business activity completely in accordance with market supply and demand and the laws of value. So, when the government improperly interferes in enterprise production and business and damages the enterprise's interests, it is different from the public ownership economy, especially the state economy. The nonpublic economy can very well refuse to comply or, if they do comply, to take a discount. This demands that the government make greater use of economic means, economic levers, and the benefits to guide, while not using coercive administrative commands to accomplish control of the operations of the economy. With increases in the share of the market component in the economy and diversification of the main body of the economy, the demands for government macroeconomic control will be further heightened.

These changes in the structure and growth characteristics of the Chinese economy are the result of carrying out the policy of reform and opening up and the constant

increase of the market factor in the economy and are the accumulated success of over ten years of economic development and are also the result of the people's livelihood's already achieving being well-clothed and well-fed and moving toward being comfortably well off, with national economic development entering a new stage.

The transformation from the planned economy system to the market economy system is a process of gradual accumulation of new economic operating mechanisms and growth characteristics and their gradually performing their functions and the old economic operating mechanisms and growth characteristics gradually decreasing and gradually losing their usefulness. We stress that the appearance of new characteristics in current economic development by no means indicates that past experiences and ways of analyzing are totally inappropriate to 1990 economic development, but we only intend to point out the gradual nature of the transformation of the economic system and the affect that it can have. If we overlook the influential new characteristics that economic development already has exhibited, it could affect the accuracy of our conclusions. Actually, although the scope of market adjustment already takes up a rather large share, the inert influence of the old economic system still is extremely great. For example, there are some deep-seated problems in China's current economic life that still are far from solved. The impetus for blind economic expansion still is very strong, the difficulty of overall control is increasing, structural contradictions are even more pronounced, and macroeconomic control and management still need to be further strengthened. In solving these problems we must rely on further intensification of reform and broadening of the opening to the outside. Certainly, the referential value of past experience also is extremely important.

## PROVINCIAL

### Xinjiang Enterprises Cannot Compete With 'State' Enterprises

93CM0343A Urumqi XINJIANG RIBAO in Chinese  
27 Apr 93 p 1

[Article by Fan Xibin (5400 6007 2430): "Enterprises Most Fear 'Organizations Becoming Enterprises'"]

[Text] With enterprises being pushed toward the market and enterprises beginning to become the mainstay of economic activity, the greatest difficulty that they feel is not just such things as tight funds, rising prices of raw materials, and a lagging pricing policy. There is still another "tiger blocking the road" [obstacle] that is tightly biting enterprises and will not let go. This is the rather numerous "changed sign companies" that are now being shouted down. Not long ago, at a symposium for factory directors and managers of some large- and medium-sized

state enterprises, the enterprise leaders voiced their anxieties, "fear neither heaven nor earth, just fear government departments becoming enterprises."

Objectively speaking, in Xinjiang there still are not many companies hanging the "group" sheep's head [sign] and "changing the company sign" to lower the enterprise to a "second class legal person" as there are in some internal provinces and regions, but the "changing of signs" by companies directly associated with departments in charge of enterprises or jointly organized companies of some departments that hold actual authority are as numerous as "bamboo shoots after the rain." At first glance, these "changed sign companies" appear to have been transformed and disconnected from the government. But actually they still retain or partially retain administrative management functions. They are not the same as traditional state enterprises and they are not the same as the collective enterprises of the past. Many of them have certain monopolies and can even acquire land or other capital goods from government hands at a reduced price and sell it at a high price, or with the support of a certain department engage in some affairs that could not be engaged normally, and without a lot of effort they can obtain huge profits. A factory director drew an analogy. Some of the cadres from the administrative unit run companies and organizations go down to the "sea" and, at the same time, they bring their organizational functions and authority down. It is true that the enterprises do not dare to offend or slight these "changed sign companies" that in the past had "grandma" and now have "granddad" relations.

The director of a cement factory said, "Now administrative units are distributing personnel and starting companies one after the other. When some government functional department run 'changed sign company' comes with a note from the leadership group wanting cement, we do not dare to slight them. With the cement market looking good, we dispose of the cement to them. The company that can have it goes out the cement factory gate and adds 50 yuan a ton to the price and sells the note to another company. Thus, cement prices multiply."

An entrepreneur from Changji reflects, "Government functional departments' making 'changed sign companies' is very unhelpful to enterprises moving toward the market. Most of these companies do not produce a product and do not have a fixed place of business. The only thing that they have is authority. They use their authority to do business by demanding excellent quality products from enterprises at a cheap price. Some want a preference to the preferential price. Actually they transfer part of the enterprise's returns."

Another entrepreneur reflects, "The agencies that they are in charge of have become 'corporations.' They say that they are 'transformed,' but they have not given up a bit of the authority in such areas as enterprise operation and appointment and dismissal of cadres. The enterprise plans to straddle trades and become a joint venture and

the corporation acting in its own capacity engages in across-the-board interference."

There is another phenomenon that is causing enterprises to remain puzzled after much thought. With government functional departments running companies, it is becoming more and more difficult to run an enterprise. Some examination and approval procedures that formerly were approved by the department now have been transferred to be approved by the "companies" that these departments run, exacting a fee for performing a service. There is a mutual monopoly between the units and the departments and the enterprises are squeezed in the middle. The days are truly not going well.

Factory directors and managers generally believe that there is no greater obstacle to the enterprises' moving toward the market than the "changed sign companies." Because the enterprises depend on product competition to enter the market, but this type of company depends on the authority that it holds to enter the market, many of the difficulties that they are unable to resolve for the enterprises, they also want to take away from the enterprises.

Certainly, there are many causes producing "changed sign companies." Enterprise factory directors and managers believe that the first is that some people in charge of departments by no means have a thorough grasp of establishing a socialist market economy and they have the one-sided belief that in establishing a "group company," if the scale is exceedingly big, the enterprise is competitive. So, they take back some of the authority that originally belonged to enterprises and the enterprise cannot directly face the market. So, the enterprises have no vigor to speak of. Also some functional departments that do not want to lose their power in the transfer of functions of the organizational reform organize a "company" that does not separate the enterprise from the government to protect the department's interests and material benefits, and at the same time they also can exercise their authority toward the enterprise.

Factory directors and managers themselves also acknowledge that with such policies, laws, and regulations as the Regulations not fully implemented, they do not dare to go up against the "dual function" companies. Now enterprise factory directors and managers must assume responsibility for increasing and maintaining the values of state assets and the entire enterprise operations. On the contrary, who takes responsibility for the rights and interests of factory directors and managers? If an enterprise leader causes a "confrontation" over the interference of an upper echelon department, the factory director is looked upon as "disobedient."

Some people in economic circles believe that making "changed sign companies" goes against the will of the people and could make it difficult for enterprises to move toward the market. It is inevitable that in transforming functions, organizations will establish some companies, but to covertly abolish enterprises' legal

person credentials or use the department's authority to create a monopoly, not only is not reform, it is going backwards, and a return to the old way of uniting government and enterprises. So, the government should decide to clear up various types of "changed sign companies." If functional departments want to run companies, they should separate government from enterprises and be thoroughly disconnected from the functional department in such aspects as people, finances, and materials. As regards a few departments in charge of industry, when they organize "group companies," they certainly must comply with the principle of the enterprise being independent and voluntary and guard against "pulling a dowry." As regards the "changed sign companies" showdown with the enterprises, the enterprises should dare to confront and dare to contend with them on the basis of the authority conferred by the Regulations. We should strictly forbid lack of separation between government and enterprises, combining government and commerce, and using authority for personal benefit in the name of reform. We should strictly forbid organizations' investing to create an entity or investing in an enterprise stock operation. As regards various types of individual "hidden" income, we should abolish the illegal and make the legal public, bring in wages and bonuses, and tax high income in accordance with the law.

## SMALL-SCALE ENTERPRISES

### Editorial Backs Breakthrough in Township Enterprise Growth

93CE0585A Wuhan HUBEI RIBAO in Chinese  
24 May 93 p 1

[Editorial: "Breakthrough in Supernormal Development of Township-Town Enterprises"]

[Text] At the just concluded all-province work conference on township-town enterprises, a conference that was of the highest standards in recent years, the provincial party committee and the provincial government clearly proposed that we make a breakthrough in the supernormal development of township-town enterprises, striving to make a big stride in one year and quadruple output in three years, and by 1995 breaking through the level of 100 billion yuan in total output value. Thus the development of township-town enterprises will be make a strategic focal point and an urgent task in all economic work, and will be before cadres at all levels and the masses in the province.

Since the beginning of this year, various places in Hubei Province have conscientiously implemented the spirit of the central authorities' and the provincial party committee's and provincial government's directives on accelerating the development of township-town enterprises, arousing the enthusiasm of the cadres and the masses in the rural areas for developing township-town enterprises, and initially forming provincewide a high tide for the vigorous development of township-town enterprises.

Now, whether we can grasp this opportunity, can spare no effort in making progress, and can cause the township-town enterprises to make a breakthrough in supernormal development will be decided by whether we have an ideological understanding of supernormal breakthroughs, take measures in work, and engage in real action.

To make a breakthrough in the supernormal development of township-town enterprises, first of all we must further emancipate our minds and deepen our understanding. We must see that, speaking of Hubei's national economy as a whole, the gap between it and that of advanced and developed provinces and cities is mainly in the township-town enterprises; and, to strive for Hubei to make a fairly large contribution to the entire country, we must pay a high degree of attention to township-town enterprises. We must see that the idea in the past that developing township-town enterprises and developing grain, cotton, and edible oil production is in opposition to the state-owned enterprises, as well as the view that township-town enterprises are "a source of unhealthy tendencies," have been proved incorrect by practice. Leading comrades at all levels must take responsibility for the overall situation, and create conditions to guide township-town enterprises to play the role of flexible mechanisms and to give a good account of themselves in reform and development. We must see that, under the conditions of a market economy, an enterprise, no matter what ownership it is under or what economic component it is, provided it is a legitimate business and there are gains from its production management, will speed up when able and will develop as much as it can. In every prefecture, city, and county (seat), we must, by all ways and means, push the township-town enterprises into the position of "subject" and "mainstay." We must also see that, to become comfortably well off by the end of this century, the peasants of Hubei must achieve a per capita income of 1,400 yuan, and that township-town enterprises are charged with an important task; if township-town enterprises do not develop, there cannot be prosperity in the rural economy and even in the national economy. Therefore, those who do not get a grip on township-town enterprises cannot be leaders of prefectures and counties, townships and towns, and those who do not get a good grip on township-town enterprises are also incompetent leaders. Anyone who assumes an official post and does not work for the progress of township-town enterprises is not doing his duty. If leaders at all levels attain a new height and a new depth in understanding, they will be able to do what they want, and will get a tight grip on the breakthrough in supernormal development of township-town enterprises and not let go.

For a breakthrough in the supernormal development of township-town enterprises, we must open wide our train of thinking about work, and formulate and implement new policies and measures. Specifically, the guiding ideology for developing township-town enterprises is to break through the normal. Under the premise of guaranteeing economic benefits and social benefits, there must

be a bold loosening up in the projects, scale, and speed of enterprise development; the boundaries between districts, regions, and trades should be allowed to be broken; and then the many levels, many forms, and many components of enterprises can be compatible and coexist. There must be a breakthrough in the normal in funds input: the volume of loans by financial departments must increase yearly, and the financial aid funds must get "action loans"; shareholding contractual enterprises must be vigorously run, while the original enterprises must be put under the shareholding system. For improvement of the environment, we must break through the normal: with boldness and assurance we must protect entrepreneurs and businessmen, absolutely not permitting willful blows and restrictions against them; no department or unit can randomly ask for help, randomly scrounge from enterprises, or randomly "seize and feed upon" enterprises, thereby increasing their burden. For scientific and technological progress, we must break through the normal: we must encourage competition between enterprises in selecting talents; attract urban scientific and technological talents, talents who have left their posts or retired, and organizational talents to go to the countryside and run enterprises; support the technological results of scientific research units, in the form of shareholding, to be offered as shares to township-town enterprises; and organize the large industries of cities to support township-town enterprises and meet their needs; and help township-town enterprises to find scientific research colleges and institutes and institutions of higher education to act as their backers. In brief, in line with the new situation, boldly eliminating the rules and regulations of the planned economy system is urgently needed and a reliable guarantee that township-town enterprises will cause a breakthrough in supernormal development. The key to making a breakthrough in the supernormal development of township-town enterprises is to truly do solid work and effect tight implementation. There are many measures for developing township-town enterprises, but, in the final analysis, only one measure will do; if another good measure is not implemented solidly it will be just idle talk. Party committees and governments at all levels must attach importance to making real achievements and downplaying singing over achievements, and must not stop at putting the development of township-town enterprises on the lips or on paper. Leaders in charge of township-town enterprises must "hang on" enterprises and projects, take part in command and arrangements, solve specific problems, and win the right to lead township-town enterprises. The targets for development of township-town enterprises must be specified; targets assigned must be completed on schedule, and if they are not the leader's responsibility must be investigated. Departments that are assigned to support the development of township-town enterprises must resolutely complete the work they undertake and put every item in place. They are not permitted to shift responsibility onto each other and to procrastinate and not take action, or do things only on the surface by "only thundering and not raining." The new enterprises and projects must be

integrated with reality, must value the financial resources of the people and the financial resources in general, and ensure that there is solid work at high speed without exaggeration and that the results are really highly beneficial. Departments in charge of township-town enterprises must boldly take responsibility for coordinating actions, feeding back information, and providing services, thereby truly becoming the functional departments for township-town enterprises led by party committees and governments. Leaders of localities or departments who do not exercise effective leadership over township-town enterprises, or who adversely affect the development of township-town enterprises, must be criticized and educated, and correct themselves within a specified time or leave their posts; leaders of localities or departments who make outstanding achievements in handling township-town enterprises must be commended and awarded.

Let us act swiftly and make concerted efforts, and make an effort to cultivate township-town enterprises—these most realistic, most lively, most hopeful economic points of growth—on this great land of the "State of Chu" and write a new chapter in the breakthrough to supernormal development of township-town enterprises.

## FOREIGN TRADE, INVESTMENT

### Foreign Investment, Preferential Policies Reviewed

93CE0542A Beijing GUOJI SHANGBAO in Chinese  
17 Apr 93 p 3

[Article by Lin Kun (2651 0981): "Recent Status of China's Attraction of Direct Foreign Trader Investment and Associated Preferential Policies"]

### [Text] 1. China's Attraction of Foreign Trader Investment

As an important integral part of the opening to the outside world during the past 14 years of reform and opening to the outside world, the attraction of foreign trader investment has scored unsurpassed achievements. Between 1979 and 1992, a cumulative total of 90,109 foreign trader-invested enterprises were approved nationwide calling for an investment totaling \$108.923 billion, \$34.16 billion of which foreign traders actually invested. This included the approval of 58,374 Sino-foreign joint ventures calling for a foreign funds investment of \$50.36 billion, \$17.55 billion of which was actually invested; 16,784 Sino-foreign contractual joint ventures calling for a foreign funds investment of \$31.3 billion, \$8.19 billion of which was actually invested; 14,870 wholly foreign owned enterprises calling for a foreign investment of \$23.76 billion, \$5.03 billion of which was actually invested; and 81 cooperative development projects calling for a foreign investment of \$3.48 billion, 3.385 billion of which was actually invested.

Since Deng Xiaoping's remarks during his travels in south China, China's attraction of foreign trader investment has increased extremely rapidly. In 1992, 48,764 foreign trader investment projects were approved calling for a foreign investment of \$57.5 billion, actual foreign trader investment amounting to \$11.16 billion. These three figures represent 2.8-fold, 3.8-fold and 1.6-fold increase respectively over 1991.

The aforestated investment came from more than 70 countries and three territories. The places holding the top 13 positions for investment were Hong Kong and Macao, the United States, Japan, Taiwan, Singapore, Germany, the United Kingdom, Thailand, France, South Korea, Australia, Canada, and the Philippine Islands.

Investment was spread over many different industries, mostly in petroleum, coal, machinery, electronics, the chemical industry, pharmaceuticals, textiles, light industry, agriculture, and aquatic products breeding.

Today, every province, autonomous region, and directly administered municipality in the country has enterprises in which foreign traders have invested.

Today 34,288 foreign trader-inverted enterprises have gone into production or opened for business, an overwhelming majority of which are doing very well. In 1992, they exported \$17.36 billion worth of good accounting for 20.4 percent of the country's total exports.

Practice has shown that foreign-invested enterprises have become an important integral part of China's economy.

## 2. China's Investment Climate

By comparison with other countries of the world, China's investment climate is unique in that the political situation is stable, it has a policy of opening to the outside world that is to remain unchanged for a long period of time, its economy is growing steadily, it has a vast land area, abundant resources, and a huge market, it has a solid scientific and technical foundation; it has plentiful labor, wages and expenses are low, and taxes are light.

During the past 14 years of China's opening to the outside world, the Chinese Government has adopted a series of effective measures to improve the investment climate.

A) Improvement of the legislative system. During the past 14 years, China has increased economic legislation, promulgating more than 200 economic laws and regulations, more than 50 of which are laws pertaining to direct investment in China. Examples include the Sino-Foreign Contractual Joint Venture Enterprise Law, the Foreign-Owned Enterprise Law, the Foreign Economic Contracts Law, and the Foreign Trader Investment Enterprise and Foreign Enterprise Income Tax Law. In addition, the Chinese Ministry of Economic Relations and Foreign

Trade is in process of drawing up urgently the "Foreign Investment Law of the People's Republic of China," which will soon be presented to the NPC for discussion and passage.

China pays extremely close attention to intellectual property rights protection. Not only has it drawn up a patent law, a trademark law, a copyright law, and computer software protection regulations, but it is a participant in the "World Intellectual Property Rights Organization (WIPO) Convention," the "Paris Treaty on the Protection of Industrial Property Rights," "the Madrid Agreement on the International Registration of Trademarks," and both the "Bern Treaty" and the "World Publishing Rights Treaty" for the protection of literary and artistic works.

China signed an agreement on the mutual protection of investments with more than 50 countries including Sweden and Romania, and it signed an investment insurance agreement with the United States and Canada. China also signed an agreement with 33 nations including Germany or the avoidance of double taxation.

These agreements that China has signed, the international treaties of which it is a member, and China's economic laws and regulations provide legal protection for the investment of foreign citizens and foreign business concerns in China, and for their other forms of economic cooperation as well as the profits they have made.

Since 1980, China has established five special economic zones [SEZ], namely Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan Island. In these zones, natural resources are plentiful, information is readily available, the industrial foundation is strong, conditions for agriculture are good, and township and town industries are developed. Twenty economy and technology development parks have been established in the aforementioned zones. Within these parks, a large amount of infrastructure and service facilities, including transportation, electric power, communications, water supply, and industrial facilities have been built, which helps attracts foreign traders to invest and live here.

In April 1990, China opened up the new Pudong area of Shanghai, which the state has granted 10 preferential policies.

In 1992, China opened up Chongqing, Yueyang, Huangshi, Jiujiang, and Wuhu in the Chang Jiang basin, as well as 19 provincial capitals including Chengdu, Wuhan, Nanchang, Hefei, Harbin, Changchun, Hohhot, Shijiazhuang, Taiyuan, Xian, Lanzhou, Xining, Yinchuan, Guiyang, Urumqi, Nanning, Hangzhou, and Kunming.

B) More border cities have been opened. The Chinese Government opened the border cities of Heihe, Suifenhe, Manzhouli, Yining, Tacheng, Bole, Renxiang, and Ruili.

The Chinese Government approved the establishment of 14 bonded zones at Dalian, Tianjin, Qingdao, Shanghai, Guangzhou, Zhanjiagang [sic; Zhangjiakou probably intended], Ningbo, Fuzhou, Shenzhen, Zhuhai, Hainan, Shantou, and Xiamen. Sino-foreign joint ventures or wholly foreign trader-owned trading companies may be established within the bonded zones to conduct entrepot trade.

Since 1985, the Chinese Government has approved the establishment of 52 high and new technology development zones.

The Chinese Government also approved the building of 11 tourism and vacation zones in Dalian, Qingdao, Tai Hu in Jiangsu, Shanghai, Shanghai, Hangzhou, Fujian, Kunming, and Beihai.

With this, an all points, multilevel pattern of opening to the outside world has appeared in China that stretches from the SEZ's to the open coastal cities, to the coastal open economic zone, to the Chang Jiang basin, to border regions, and to inland regions centering around provincial capitals.

C) The Chinese Government has opened up not only regions to the outside world but industries as well. In June 1992, the Chinese Government approved the establishment of Sino-foreign joint ventures or contractual commercial retail businesses in Shanghai, Tianjin, Beijing, Qingdao, Dalian, Guangzhou, and the five SEZ's. In Shanghai and Shenzhen, two stock markets are undergoing trials. In addition, foreign investment has also been permitted in transportation, finance and banking, consulting, and accounting businesses.

D) Government streamlining and delegation of authority to increase work efficiency.

In order to simplify procedures to improve work efficiency, the Chinese Government decided to delegate some of the central government's project examination and approval authority to the provinces, autonomous regions, and directly administered municipalities, as well as to the 14 open coastal cities and the ministries and commissions of the State Council. According to Central Committee regulations, the coastal provinces, municipalities, and autonomous regions of Tianjin, Beijing, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Guangxi, as well as the five SEZ's of Shenzhen, Zhuhai, Xiamen, Shantou, and Hainan have approval authority for each foreign trader investment project of a productive nature in which the amount of the investment is within \$30 million. Other provinces, autonomous regions, and directly administered municipalities, as well as all State Council ministries and commissions may approve projects in which the foreign investment is within \$10 million. For projects of a nonproductive nature, no matter the amount of investment, local governments and all ministries and commissions of the State Council may grant

approval, except for projects for which a nationwide balance is required or projects in which the state limits foreign trader investment.

E) In many provinces and cities, a one stop examination and approval agency has been established, which greatly reduces examination and approval time. Most coastal provinces and cities have also set up various kinds of special agencies such as foreign trader investment service centers, raw and processed materials procurement and supply companies, foreign exchange allocation centers, lawyer offices, accountant offices, and foreign trade consulting companies to provide various services to foreign trader investment enterprises.

F) Preferential tax benefits for foreign trader investment enterprises:

#### (1) Enterprise income taxes

The enterprise income tax rate for foreign trader investment enterprises is 30 percent; the local income tax rate is 3 percent. The income tax rate may be reduced to 15 percent in the following places, or for the following kinds of projects:

- a) foreign trader-invested enterprises in SEZ;
- b) enterprises of a productive nature established in economy and technology development zones;
- c) enterprises of a productive nature established in the new Shanghai Pudong zone, as well as enterprises engaged in airport, port, railroad, highway, electronic power station construction projects;
- d) recognized high and new technology enterprises set up in national high and new technology development zones;
- e) enterprises of a productive nature engaged in the following kinds of projects in coastal economic open zones and in old urban areas of cities in the SEZ and in economy and technology development zones.

Technology-intensive and information-intensive projects:

Projects in which foreign trader investment is more than \$30 million and for which the period for recovery of investment is long:

- Energy, transportation, and port construction projects;
- f) Sino-foreign contractual joint venture enterprises for port and wharf construction;
- g) financial institutions such as foreign owned banks, Sino-foreign joint venture banks in SEZ and State Council-approved other areas; however, for such institutions in which the amount of foreign investor investment of capital, or in which the branch has received an input from the main office in operating funds is more than \$10 million, the period of operation is limited to within 10 years;
- h) foreign trader-invested enterprises engaged in projects that the state encourages that are set up in other places that the State Council specifies;

Enterprises of a productive nature established in the following areas may have their tax rate reduced to 24 percent:

1. enterprises of a productive nature in coastal open economic development zones, and in the old urban areas in cities in SEZ and economy and technology development zones;
2. foreign trader-invested enterprises located in open coastal cities;
3. productive enterprises located in open coastal cities;
4. productive enterprises located in inland provincial capital cities;
5. productive foreign trader-invented enterprises located in tourist and vacation areas;

Productive enterprises that are to operate for 10 years or longer are exempt from payment of the enterprise income tax for a period of two years beginning from the year in which they begin to make a profit. During the third to the fifth year, their enterprise income tax is reduced to half.

(2) Uniform industrial and commercial tax and customs duties.

The state provides for exemption from customs duties and the uniform industrial and commercial tax on imports for imported machinery and equipment and for other needed materials included in the total investment of the joint-venture enterprise, as well as raw and supplementary materials imported for goods to be sold abroad;

All exports of products that are not under state license control are exempted from export tariffs and the uniform industrial and commercial tax on exports;

Should a joint enterprise have difficulty paying taxes during the initial period of operation, application may be made for reduction or exemption for a certain period of time from the uniform industrial and commercial tax on products sold within China:

In addition to the foreign preferential treatment, jointly operated enterprises in the SEZ's, technology development zones, and 14 coastal cities are also exempted from the payment of import duties and the uniform industrial and commercial tax on the importation of a reasonable number of transportation vehicles and office equipment.

(3) Real estate taxes, vehicle and vote licensing taxes, and local added value income taxes:

These are all local forms of taxation for which the tax rate is very low. For example, the annual real estate tax is figure at 1.2 percent of the value of real estate, and depending on the sphere of enterprise operation and operating conditions, local people's governments may decide to grant a reduction or exemption. Currently, most provinces and municipalities have preferential policies regarding these taxes.

Trade Prospects With Latin America

93CE0557A Beijing GUOJI SHANGBAO in Chinese  
4 May 93 p 3

[Article by Wang Zhiqian (3769 3112 2938), Deputy Chief, American Division, Ministry of Foreign Economics and Trade: "Latin American Markets Are Worth Developing"]

[Text] Chinese exports to Latin America in 1992 exceeds U.S.\$100 million for the first time, but it is only 0.8 percent of the region's total imports.

To promote economic cooperation and trade between China and Latin America, the Greater America Division of the Ministry of Foreign Economics and Trade and the Institute of International Trade jointly sponsored a seminar on "Latin American Trade and Investment" in Beijing recently. Shih Guangsheng [4258 1684 3932], assistant to the Minister of Foreign Economics and Trade was in attendance and delivered the opening address. During the four days of meetings, authorities and specialists from related agencies, personnel from embassies representing eight Latin American countries in China, representatives from trade and research organizations, and entrepreneurs from all parts of China explored in depth the economic and trade situation in Latin America, the present economic and trade relationship between China and Latin America and its future prospects, its integration and effects, as well as ways to open up the Latin American market. This article is abstracted from remarks made by Mr. Wang Zhiqian at the seminar.

During the past year, economic and trade cooperation between China and Latin American countries has made outstanding strides. Even with an export cutoff of crude oil and a reduction in volume of food staples exported, China's exports to Latin America still showed an increase of more than \$200 million over the previous year, with the gross value of exports going over \$1 billion to reach \$1.076 billion, a growth of 35.3 percent over the year before. Latin American exports to China worth \$1.9 billion also showed growth over the year before.

Analysis of commodities exported from China to Latin America showed that besides traditional light industry products and textiles, electromechanical products and equipment showed a comparatively sizeable increase. Airplanes, ships and boats, automobiles, power tools, agricultural machinery, and domestic electrics etc., are gradually being recognized and accepted by Latin American households and consumers. Numerous products are much welcome, which bodes well for future sales. Last year, the adverse trade balance between China and its chief Latin American trade partners shrank on an overall scale, and the adverse trade balance was cancelled out with some of the other countries.

At the same time that outstanding developments in trade are seen on both sides, economic and technological cooperation between China and Latin America, as well as mutual investment in each other, are also making

great progress. The China Agricultural Machinery Company established a tractor assembly plant in Venezuela; the Shoudu [Capital] Steel Company purchased \$120 million worth of iron ore from Peru; and original investments in Chile's fish powder plant and Brazil's steel mill also introduced changes in the economic picture. Moreover, China also provided economic assistance for economic development to some countries in the Caribbean and Andes groups.

The future of economic and trade relationships between China and Latin America is very encouraging. In 1992, the value of goods imported by Latin American countries added up to \$132 billion, of which only 0.8 percent of the sum was for products from China. Similarly, goods exported to China from Latin America only comprised 2.3 percent of China's total imports. Last year, China's economy grew 12 percent, ahead of the rest of the world. The Latin American economy also grew 2.4 percent on the foundation of 3.5 percent for the year before, with a general drop in inflation.

Products traded between China and Latin America show a rather strong complementary nature. Latin American exports such as copper, iron ore, fish powder, timber, steel, food staples, woolen yarn and paper pulp are products that China needs for economic construction over a long period of time. The technical level and price range of Chinese exports are also more suited to the needs of the Latin American market. Because China and Latin America both have large markets, economic development has a delayed effect, for the complementary nature of their products is strong, and the prospects for both sides to attain a new height of development in import/export trade is very encouraging.

However, some limiting factors are found in the trade relationship between China and Latin America. They are inherent in problems such as the long distance required to transport goods, a long trade cycle, product service after sales, delays in obtaining export credit and export credit insurance. Recently, a trend to integrate Latin America has been noted. For example, the Southern Common Market and the North American Free Trade Zone are expected to be working after two or three years. Some Latin American countries have taken anti-dumping action against exports from China, which can become an unfavorable factor impeding smooth cooperation in trade between China and Latin America. But we should also see that integration or collectivization of the Latin American economy can bring new opportunities to expanding cooperation and trade. While this new factor poses more challenge than opportunity, when all things are considered, Latin America is still a market for China to exert great effort toward opening it up.

## POPULATION

### Problems of Population Control in Rural Areas

93CE0568A Beijing RENKOU YU JINGJI  
[POPULATION AND ECONOMICS] in Chinese  
No 77, 25 Apr 93 pp 26-27

[Article by Yang Bing (2799 0365) of the Family Planning Commission of Dafeng County, Jiangsu Province: "A Brief

### Analysis of Difficulties in Furthering Grassroots Population Control and Measures To Solve Them"]

[Excerpt] [passage omitted] Now, many grassroots units, especially rural villages, have encountered new circumstances and problems in controlling population growth and strengthening family planning. Chief among them are as follows:

1. Presently, people in all localities are earnestly studying and implementing the guidelines contained in the remarks made by Comrade Deng Xiaoping during his southern inspection tour. Everyone from top down is devoted to accelerating economic development. This has also enhanced the family planning department's awareness of the importance of economic development. However, the current situation has created a new problem about family planning. That is, in some grassroots units principal party and government leaders have no time to attend to family planning work. To concentrate on and go all out for economic work, some local party committees and governments have assigned economic duties to the deputy secretaries and deputy township or town heads who used to be in charge of family planning. As for family planning work, they passed it to several ordinary party committee members or departmental heads. This has created the new leadership system of principal leaders only "assuming overall control and responsibility," the system of "five people in charge," and so forth. The result is that the family planning department itself has practically become a mere skeleton. This is especially so at the township or town level. In the author's opinion, accelerating reform and opening-up to develop the economy and strengthening family planning to strictly control population growth are two sides of the same thing. They promote and act on each other and have the same goal. The purpose of reform and opening-up is to liberate and develop productive forces. Family planning, a method used by humans to adjust their reproduction, is also a process of liberating and developing productive forces. Reform is aimed at promoting social and economic development and raising the people's living standards. Family planning is intended to bring the development of population in line with social and economic development so as to raise continuously the average per capita share of social wealth. Reform, opening-up, and economic development can bring a change to people's idea about childbirths, while family planning can lighten the population pressure on society and provide a favorable population environment for conducting reform, opening to the outside world, and developing the economy. If we pay attention merely to reform, opening-up, and economic development but ignore the work of family planning, our population will inevitably be in an out-of-control or partly-out-of-control state, thus imposing a burden on the development of mankind and its society.

2. Now, efforts are being stepped up for experimental reform of county organizations in all localities. As can be seen from recent news reports disseminated by papers, magazines, television, and radio broadcasts, some cities

and counties have abolished the family planning departments or merge them with other units in the course of experimental organizational reform. Moreover, there is no clear-cut documents from the state, provinces, or municipalities saying that the family planning departments must be retained in organizational reform. This has resulted in a considerable impact on the family planning departments in various localities and mentally affected a number of comrades. Some worry about their future jobs after the abolishment or merge of their departments. Others are of the opinion that, during the years of reform, "money" is the fundamental thing and should be put above all else. No matter what organizational reform, they say, the family planning department must rely on the financial department for support. In their opinion, since the family planning department can neither sell the birth quotas for money, nor does it have an economic foundation to run some kinds of productive entities, family planning work is a very hard and bitter job which gives little reward and income. If they continue to work in this field, they say, the going can only be tough in the future. As I understand it, abolishment of the family planning department has three negative effects: In the first place, the vast number of grassroots cadres and masses would have some misunderstanding. They would think that with the abolishment of the family planning department, there would be less restriction on childbirths, and naturally the idea of bearing more children regardless of the policy would revive. Second, the family planning work force at the grassroots level would become lax, and no one would take care of the regular grassroots family planning work. This may result in the problems of no clear information and knowledge, inaccurate reports, and inadequate communications about grassroots family planning work. Third, without a special organ to exchange information and coordinate work with the departments concerned, it would be difficult to bring about a situation where everyone is paying attention to and earnestly implementing the family planning policy.

3. With the development of the reform and opening drive, people's awareness of the commodity economy and market economy has continued to increase. A vast number of farmers have vied to leave their lands and take to the streets to join international and domestic market activities by plunging into secondary and tertiary industries. As lots and lots of rural people have left their lands and villages and arrived in cities, their family planning is no longer a matter within the authority of the original rural units. Nor can such a big question be taken care of by the urban authorities. Certainly, it is no easy task for the small-sized "local corps" to control childbirths and implement long-range birth-control measures for a floating population numbering tens of thousands. [passage omitted]

## AGRICULTURE

### Article Advocates Unifying Trade, Industry, Agriculture

93CE0574A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese  
No 4, 20 Apr 93 pp 19-22

[Article by Ai Yunhang (5337 0061 5300) of the Rural Department of the Chinese Communist Central Policy Research Office; Zhang Qingzhong (1728 1987 1813), editor: "Draw Agriculture Into the Good Market Economy Form—A Study of Unified Trade, Industry, and Agriculture, and Coordinated Production, Processing, and Sales"]

[Text] With intensification of rural reform and with the impetus of governments at every level, the unified trade, industry, and agriculture and coordinated production, processing, and marketing form of operation has grown by leaps and bounds in several localities. Practice has proven that this form of production and business organically integrates rural reform and urban reform, is a good way to intensify urban and rural reform, and is a good form for drawing agriculture into the market economy.

### I. Characteristics and Types of Unified Trade, Industry, and Agriculture and Coordinated Production, Processing, and Sales Operations

Based on the experiences of several localities, the main ways of developing unified trade, industry, and agriculture and coordinated production, processing, and sales are: To let agricultural and agricultural byproduct processing and business enterprises take the lead guided by the international and the domestic markets, and based on family businesses, through social services and attracting benefits, let agriculture, industry, commerce, and trade bear the risks together and equally receive the benefits and become a mutually beneficial profitable common entity. The specific procedure is for processing and business enterprises to extend themselves into the countryside and, based on market demands, sign contracts with the rural households and establish agricultural and agricultural byproduct production bases and to provide complete services, support production, cultivate a source of goods, and organize a processing industry, and market the products on the domestic and foreign markets. The rural households, in accordance with the contract, would perform the directed production and would hand over a designated amount of the product on time for sale. The economic and technology sectors would actively participate and serve and the comprehensive administrative department would do a good job of directing macroeconomic control and coordination, gradually forming a new "three in one" production,

processing, and circulation economic operating mechanism under macroeconomic direction. This form of operation would combine the urban and the rural economy and agriculture, industry, commerce, trade, and technology into an organic whole, closely combining production, processing, and sales for coordinated development that would link up the parts to form a whole and help each other advance.

Unified trade, industry, and agriculture and coordinated production, processing, and sales operations are characterized: First by breaking through the demarcation of the ownership systems. The state-run, collective, and individual are linked up. Second, by breaking through the demarcation of administrative regions. Enterprises in the county and out, in the province and out, and even in the country and out are linked up. Third, by breaking through the demarcation of trade affiliation. The agricultural, commercial, trade, and technical industries are joined. Fourth, by breaking down the old system separating the urban and the rural. The city and the countryside are closely united, thereby promoting the optimum make up of productive factors and rational adjustment of the industrial structure to help the city and the countryside to benefit from one another's advantages.

There are a great many types of unified trade, industry, and agriculture and coordinated production, processing, and sales operations. Some have the commerce and trade sector as the principal coordinating unit, some have the agricultural production sector as the principal unit, some have the science and technology sector as the principal unit, and some have specialized technical associations as the principal unit. But their common characteristic is that the leader must be a sector that is rather strong economically and technically and in business capability, and most of the business's assortment of goods should be openly handled rather early, the processing should add quite a bit of value, they should have rather good sales, and the economic returns should be rather high.

In localities throughout the country several types of unified trade, industry, and agriculture and coordinated production, processing, and sales operations are now springing up. Generally there are the following types:

1. The enterprise driven type. It is led by a rather strong enterprise and joins the relevant departments and rural households to conduct a unified operation centered on the production, processing and sale of a key product. Zhucheng City in Shandong Province, beginning in 1985, has developed unified trade, industry, and agriculture for chicken. From the city's foreign trade company they have introduced good foreign varieties and advanced facilities. One after another they have established improved variety chicken breeding yards, feed processing factories, and slaughtering and freezing plants, and they have established rather stable trading relations with Japanese merchants. The company provides the chicken raising households with the full set of the "four arrival at the gate, three sell on credit, two open, and one accounting" services. The chicks are

brought to the gate, the feed is delivered to the gate, the inoculations and technical direction are brought to the gate, and the purchases are transported to the gate. The chicks, the feed, and the inoculations are sold on credit. Enterprise operations and allocation of profits are public. And after the chickens are slaughtered, there is one accounting. This way the households that raise chickens have a stable income and the slaughtering plants have a stable source of goods and they are constantly opening markets and expanding the scale. In eight years, the volume of chickens raised throughout the city has expanded from 2 million to 40 million and the cut up chickens exported has increased from 740 tons to 16,000 tons. The peasants' average net income per chicken raised is 1.2 yuan. Several rural households can raise 10,000 chickens in a year and that year become 10,000 yuan households. The foreign trade company also is constantly growing. The company presently has thirteen subsidiary enterprises, two joint investment enterprises, nineteen foreign trade purchasing stations, and ten overseas offices. Combining social production, processing, storage, transportation, scientific research, sales, and services the company has 200 million yuan in fixed assets, 7,100 employees, an annual output value of 500 million yuan, sales income of 600 million yuan, and earns nearly US\$100 million in foreign exchange.

2. The market-driven type. Centered on the development of a superior industry, a sound and complete market system, and broad commodity circulation channels, it uses market guidance to bring about an expanded scale of production in the superior industry along with development of associated processing, transportation, and sales industries to form a coordinated business pattern. Shouguang County in Shandong Province is famous throughout the country as a big vegetable production and sales county. To expand the market share of this superior industry, it is constantly improving the market system, gradually forming a circulation pattern led by specialized wholesale markets, dominated by state and collective commerce with township and village service companies as the mainstay assisted by joint and individual companies. This spurs the development of the production, processing, storage, transportation, and sales industries. In 1991 vegetables covered a 280,000 mu area throughout the county with a total yield of 1.4 billion kilograms and an income of 450 million yuan. On this one item alone the per capita peasant income throughout the county was 500 yuan.

3. The enterprise group type. It relies on the advantage of agricultural resources and is based on agricultural product production, is led by commercially run industrial enterprises, and provided with comprehensive technical services to form a joint entity with group benefits. Its essential function is to use the overall advantage to commonly assume the risks associated with the external market and to use high quality services to profit equally from the benefits associated with the internal base. For example, Nei Mongol's Autonomous Region Horqin Banner established five unified enterprise groups: A

down production, processing, and sales combine led by the banner's Local Animal Product Industrial and Trading company; a cattle and sheep production, purchasing, fattening, processing, and sales combine led by the banner's Food Product Company; a pork, fowl, rabbit, and egg production, processing, and sales combine led by the banner's Second Food Product Company; a miscellaneous grain production and purchasing and sales combine led by the Nei Mongol Northern Miscellaneous Grain Purchasing and Sales Company; and a grain and oil production, processing, and sales combination led by the banner's Grain and Oil Food Products Industrial and Trading Company. The main structure of these unified enterprise groups includes: an agricultural and animal husbandry product production base with agricultural and herding households as the mainstay, an agricultural and animal husbandry product processing and business system with commercially run industry as its mainstay, a commodity circulation system with the commerce and trade system as its mainstay, and an administrative service system with a functional government department as its mainstay. These organically combined and mutually useful aspects form unified trade, industry, and agriculture and trade, industry, and herding operational mechanisms establishing contractual cooperative relationships with 65 percent of the banner's agricultural households and 70 percent of the herding households.

4. A science and technology driven type. It uses new high technology to develop renown, excellent, special, new products and replace traditional products. By promoting complete production and processing development, this opens new market areas. The prospects for these unified trade, industry, and agriculture businesses and markets promoted by science and technology are vast, their economic performance is good, and they have rather strong vitality. For example, the Fruit Product Company in Linqu County, Shandong Province, with the support of the Chinese Academy of Science Research Institute, used biological make up cultivation technology to successfully breed high quality poison-resistant fruit trees nursery stock and have already formed a production capability of 4 million plants. This nursery stock bears fruit one to two years ahead of ordinary nursery stock and has a 40 to 70 percent greater yield. Centered on making this high-quality product a high-value commodity, they also have invested US\$2.44 million to establish fruit experimental application stations, conduct preserving fresh fruit, cold storage, and processing research to form a unified trade, industry, and agriculture business system guided by science and technology.

5. The type joined to an association. It is mainly centered around establishing an association joined to the peasants for the production of a certain product. The association insists on compensated services and provides the members with such services as the supply of technical, improved breeding, and production data and product sales. Production, science and technology, and the market are closely integrated to improve results and

make them rich together. For example, Houguanzhuang Village, Changcheng Town, Zhucheng Municipality, Shandong Province, to meet the requirements to develop the commodity economy, has joined with vegetable associations established by vegetable farmers in the village and outside the village and has followed the way of unified production, scientific research, processing, and sales oriented toward the two markets to promote vegetable production and the development of the entire village's economy. In 1992 the total village vegetable yield was 3.2 million kilograms and income was 1.43 million yuan. On this one item alone the village net per capita income was 805 yuan. Vegetable exports earned an output value of 2.5 million yuan and annual net per capita income was 1,600 yuan, increasing 22-fold over 1978 and by 270 percent over 1987. Presently the association has spread to four provinces, eight counties, and seventeen townships and has 2,412 individual household members and 108 organizational members. The association's strength is constantly increasing and one after the other it has established eight economic entities, including the Vegetable Research Institute and the Emerald Vegetable Product Company. It has 1.08 million yuan in fixed assets and 86 workers and it has started eight vegetable production bases covering 4,500 mu in outside localities. Vegetable associations have started to become special production joint entities joining localities, with serial services, production of scale, and coordinated production, processing, and sales.

## II. Policy Measures To Develop Unified Trade, Industry, and Agriculture and Coordinated Production, Processing, and Sales

1. Actively open markets. Unified trade, industry, and agriculture and coordinated production, processing, and sales must be oriented toward the international and the domestic markets. Processing should be organized in accordance with market requirements and production should be arranged in accordance with processing needs. Presently a buyers' market prevails for quite a few products, people's consumer demands are constantly changing, and market demands are rapidly changing. If we cannot promptly and accurately grasp market information and direct production and business, it will be difficult to gain a stable and firm foothold in the intense market competition. So, unified trade, industry, and agriculture and coordinated production, processing, and sales operations must first establish a foothold that meets market demands, do a good job of forecasting the market, and promptly understand the changing market situation and its trends. At the same time, we should strive to open domestic and foreign markets so that products have stable sales.

2. Augment the establishment of leading enterprises. Leading enterprises have the comprehensive function of opening markets, directing production, intensifying processing, and providing good services. Their economic strength and influence determine the scale and success of unified trade, industry, and agriculture and coordinated production, processing, and sales operations. If we do a

good job of establishing a leading enterprise, it can lead to one or several comprehensive developments in agricultural products and byproducts and support the enrichment of the peasants. So, all localities must consistently pay attention to the crucial measures of establishing leading enterprises. Its focal points are: First to urge the leadership that a leading enterprise whether it is in the production, processing, or marketing sector and whether it is a state-run, collective, or joint enterprise, as long as it has the capability to develop products, organize processing, and initiate services, can act as a leading enterprise. Second, to support the leading enterprise in introducing advanced technology and equipment and enhancing its processing capability. It should take careful processing of agricultural products and byproducts as its main direction of attack and conduct in-depth processing and comprehensive use from primary products to byproducts and from regular products to leftover materials. This way we can improve the economic performance of the leading enterprise to do a good job of creating the conditions to adjust the benefits of the various segments of the unity. Third, to increase warehouse, cold storage, and transportation capabilities. We should expand storage and transportation capabilities directed at the large volume of agricultural products and byproducts, the numerous varieties, the rapid changes in the market, and the great price fluctuations as an important aspect of establishing leadership. This way we can ensure the timely allocation and transportation of agricultural products and byproducts, and normal enterprise production, adjustment of market surpluses and deficiencies, and a cushion for price fluctuations. Fourth, by such measures as an improved enterprise contract system, conducting a stock system, improving business management, and improving technological updating, gradually make the leading enterprise into a modern enterprise with an advanced level of administration and abundant technical capacity so that it can fully perform such functions as processing leader, market intermediary, and service center.

3. Stress the establishment of bases. Unified trade, industry, and agriculture and coordinated production, processing, and sales operations should change the small scale, mixed category, dispersed operation of agricultural production and establish rather stable production bases and do a good job of serial development of leading products. In establishing bases we should gradually do the following things: The first is to territorialize distribution. Combining agricultural administrative division with adjustment in the industrial structure in conformity with the principles of suiting measures to local conditions, giving full play to advantages, relative centralization, and high production, excellent quality, high efficiency with a unified plan and rational distribution, implement "one village, one product; one township, one industry," and centered on leading industries, put forth a great effort to develop specialized households, specialized villages, and specialized townships and gradually form territorialized economic patterns suited to resource characteristics. The second thing is that operations

should be intensified. Leading enterprises, centering on one or a few key agricultural products and byproducts, should increase the intensification of operations by directed investment, directed services, and directed purchases, leading peasants to gradually develop appropriate scale operations, changing from the small and complete to the specialized. The third thing is serialized services. In accordance with the demands for "completeness, efficiency, and timeliness," we should enhance the organization of services and the establishment of service facilities. Leading enterprises should join with the economic and technical sectors and rural cooperative organizations with each giving play to its advantage to do a good job as a service base in such aspects as technology, materials, funds, transportation, and information. We should gradually form a complete top to bottom service system and strive for the unified provision of such production materials as improved seeds, and chemical fertilizer before production; provide effective technical guidance during production; and provide unified purchasing, processing, and transportation after production to ensure that product specifications and quality meet market demands. The fourth thing is to contractualize product sales. Unified trade, industry, and agriculture and coordinated production, processing, and sales operations should be in accordance with the demands of the market economy and should strive to use economic and legal methods to smooth enterprise relations with the peasants and put forth a great effort to practice and constantly improve the contract system and practice contractual management. Contracts must be signed by both parties voluntarily, equitably, and with mutual benefit and clearly define the rights and obligations of producer and seller. Contracts must be notarized and have the effect of law, and an abrogating party should by law assume economic responsibility.

4. Stress the spread of science and technology. Unified trade, industry, and agriculture and coordinated production, processing, and sales operations are a new type of economic operating mechanism. Its improvement and development should rely on policy and rely on investment, and rely even more on advanced scientific and technical equipment and scientific management. It should take resource exploitation and increased output as its main direction of attack; adopt such measures as technical contracts, delegation of job assignments, and popularization of examples; draw scientific and technical personnel into the first line of production; and be fully utilized in such aspects as developing new products and popularizing new technology. We should, beginning with improved product quality and enhanced economic performance, speed up introduction of improved variety seedlings into breeding and the updating of agricultural product processing industry technology. We should fully utilize advantages of the leading enterprise's expanded foreign and domestic relations and economic and technical strength, and actively introduce new varieties, new technology, and new equipment to constantly improve the level of technology. With the goal of improving the quality of management personnel and the work force, we

should actively organize technical training and extensively develop popular science education. We should adopt various forms of learning, including secondary technical schools, sparetine schools, and training classes, to actively train scientific and technical talent and, by numerous means such as consultation services, broadcast lectures, and nongovernment technical associations, we should spread popular scientific and technical knowledge.

**5. Improve operating mechanisms.** The inherent dynamism for the protracted development of unified trade, industry, and agriculture and coordinated production, processing, and sales operations comes from the link to economic benefits, the formation of mutual benefits, and thriving or failing together. Thus, according to the laws of economics, appropriately handling relations between leading enterprises and the peasants and between leading enterprises and other service organizations is extremely important. While handling these relationships, the principles that should be followed are: First to support production. Processing and business enterprises should make supporting production a basic demand for accomplishing their own interests and conscientiously serve production and concede some of the profits from the processing and business sectors to the peasants. Leading enterprises, by such means as advance money on contracts, providing interest deducted loans, releasing production support money, and selling seedlings and feed on credit, can support the peasants in developing production. By providing the appropriate service fee, they can encourage relevant economic and technology departments to provide services to production bases. The second thing is mutual support. By implementing the principle that whoever supports the establishment of production bases is responsible for processing and business, the situation of a rush to harvest and a rush to purchase or refusing to harvest and refusing to purchase because of market fluctuations is avoided. The third thing is self-protection. In developing the commodity economy, we are faced with the twin risks of market fluctuations and natural disasters. In unified trade, industry, and agriculture and coordinated production, processing, and sales operations, in the peak market phase when more profit is earned, an appropriate risk fund can be collected and deposited in a special bank account in preparation for providing self-support for when products are unmarketable and the market falls into a valley, avoiding large rises and falls.

**6. Carry out policy support.** Unified trade, industry, and agriculture and coordinated production, processing, and sales operations are presently still in the preliminary stage and they are still comparatively weak in all aspects. In addition to doing arduous pioneering work themselves, they also need appropriate support. The first thing is to formulate policies and laws and regulations to create a favorable environment to conduct unified trade, industry, and agriculture and coordinated production, processing, and sales operations. For example, giving preferential funds, energy, and transportation guarantees to large

multi-regional, multi-ownership system unified agricultural, industrial, and commercial groups and appropriately reducing and delaying taxes in the initial stage on processing and business enterprises with market potential. The revenue department can make allowances for unified trade, industry, and agriculture and coordinated production, processing, and sales operation enterprises that meet with disaster or are in danger. The second thing is to encourage multi-channel raising of funds. In addition to the processing and business enterprises supporting production by such means as advance money on contracts, providing interest deducted loans, selling seedlings on credit, and returning profits, they also should implement the multi-channel method of collecting funds with the masses collecting a little, the collectives taking a little, the banks loaning a little, township enterprises providing a little, and the county treasury and relevant departments providing a little. These funds should mainly be used in such ways as the establishment of production bases, the development of new technology, and the introduction of improved varieties to breeding. The third thing is protected price purchases. With the government's unified coordination and with the processing and business sectors signing production and sales contracts with the peasants, and explicitly stipulated protected purchase prices, for example, when the market fluctuates and prices fall, the leading enterprise would guarantee the purchase at the lowest protected price. When prices inflate, following the market, the leading enterprise would assume the main risk. This can encourage leading enterprises to enhance their risk awareness and resistance to market fluctuations and do a rather good job of protecting the peasants' enthusiasm for developing production so that unified trade, industry, and agriculture and coordinated production, processing, and sales operations can be consolidated and developed.

#### Management of World Bank Loans for Agricultural Sector

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[Text] Guided by the policies of reform and opening up since the party's Third Plenum of the 11th Central Committee, China's agricultural use of World Bank loans has turned a new page. It is understood that from the restoration of China's legitimate seat on the World Bank in May 1980 to the end of June 1991, China used a total of US\$10.5 billion in World Bank loan agreement funds and established nearly 100 World Bank loan projects. Among those, agriculture used U.S.\$3.3 billion in World Bank loan agreement funds, 31.1 percent of the total World Bank loans to China, the leading sector. World Bank loans are an important channel for China's current agricultural use of foreign funds.

For more than ten years, China has actively taken the initiative in using World Bank loans for agricultural development and achieved extremely gratifying results. The main manifestations of this are broadening channels to provide sources of funds for agricultural production and increasing agricultural fund investments; improving project area agricultural production conditions, increasing the development of agricultural reserves; enhancing the efficient supply of agricultural products and advancing the development of the rural commodity economy; introducing and absorbing a sizable amount of advanced foreign agricultural production technology and management experience, and accelerating the pace of China's scientific and technical education to make agriculture prosper; improving the ecological environment of project areas; training a group of management cadres and building up abundant agricultural project management experience to provide a model for more extensive agricultural development; and, in addition, also increasing social employment and raising the income levels of project area agricultural households to play an active part in bringing about the further coordinated development of related industries, economies, and societies inside and outside of project areas. But for a number of subjective and objective reasons, there still are some problems and inadequacies in the management of agricultural projects for which China uses World Bank loans that must await future experience to be further perfected and improved.

### **I. Some Major Problems in the Management of Agricultural Projects for Which China Uses World Bank Loans and Analysis of Their Causes**

In accordance with the consistent requirements and procedures of the World Bank, there must be strict management of World Bank loan projects. That is to accomplish project goals, a systematic and standardized investment management method must be effectively implemented, coordinated, controlled, and overseen regarding every specific activity included in the project. It is understood that in more than ten years of managing World Bank loan agricultural projects, those involved have discovered several management methods appropriate to China's national conditions, have built up quite a few experiences, and have achieved gratifying results. But, because World Bank loan project management requirements are high and difficult, in addition to the fact that China is rather new at using World Bank loans and the experience of those involved is inadequate, there are some problems and inadequacies in project management. The main ones are:

#### **(1) Project Management System Problems**

Setting up World Bank loan agricultural projects is complicated, involving a great many sectors. Several sectors such as, finance, planning, rural population, banks, and auditing are indispensably and directly involved in implementing and managing agricultural projects. Fostering a reasonable project management system, and arriving at a scientific division of authority and responsibility and good cooperation between the

central government and various levels of local government is an important guarantee of doing a good job on the projects. It is understood that there still are some problems in the current project management system. For example, in project management, some are headed by the financial department, but there also are a few projects that are headed by such professional management departments as the planning commission and rural population with many-headed project management. The division of authority and responsibility among the various departments is not too clear and they do not cooperate smoothly with one another. The varied management systems have not formed themselves into a complete, standardized agricultural project management system model. The problems listed above have had a rather great negative influence on project management.

#### **(2) The matching funds that World Bank loan agricultural projects require are not sufficiently implemented.**

The World Bank stipulates that loans can only provide part of the funding funds for development projects. The rest must be resolved by matching funds domestically. The World Bank loans used for agricultural projects in China generally require that 1:1 matching funds be provided. At the same time, the World Bank conducts an accounting system for funds drawn. How matching funds are implemented directly affects the progress of the project and project results. There are quite a few sources for the matching funds required for the agricultural projects on which China uses World Bank loans. The main ones are: State financial allocations and payments to the agricultural rotating fund loans, agricultural bank loans, funds raised by the project unit itself, project area agricultural household labor deductions, and many other channels and forms. It is understood that governments at various levels and relevant departments generally take the raising and implementation of matching funds rather seriously, but there quite a few projects for which the implementation of matching funds is not altogether ideal. This is mainly manifested in the grassroots lacking in the implementation of matching funds. The commensurate funds cannot be promptly and adequately raised and it is difficult to guarantee matching funds. Actually, the main reasons are the following:

#### **1. The locality's promise to match funds is greatly influenced by policy factors.**

In the last few years with tight state finances, financial revenue and expenditures have very little maneuvering room and the grassroots financial departments of some project areas have no way of providing the huge amount of matching funds required by the projects. Agricultural bank loans also are a main source of matching funds for World Bank loan agricultural projects. Generally they make up 30-50 percent of matching funds. It is understood that agricultural bank

loans are greatly influenced by big government policy and their scale of credit fluctuates to a certain extent, often affecting the implementation of matching funds.

**2. Some localities on the scale of projects "go in for grandiose projects."**

World Bank agricultural loan interest rates are rather low and long-term and several localities are very enthusiastic about using World Bank loan agricultural loans. Some localities are keen on competing for projects and competing for investment and are glad to "set up a large booth" for World Bank loan agricultural projects, especially for some projects led by departments in charge of professions where the financial department management is inadequate. This problem is very clearly exhibited and it often leads to inappropriate content of some projects and the results falling short. It can also easily create the situation where the scale of project investment exceeds the capability of project area to provide matching funds. Matching funds are difficult to implement.

**3. Some projects underestimate costs.**

Project evaluation and implementation are premised on accurately budgeting project costs in the early preparatory phase, and it is an important part of project management. In the early preparatory phase of a project, we generally should make preliminary calculations of future indeterminate factors and include a certain share of price fluctuation expenses and unforeseen expenses ("the two expenses") in the cost to offset the affect of indeterminate factors as much as possible. But quite a few project areas estimate the project artificially low and force down the pricing criteria and the share of the "two expenses," underestimating project costs and exaggerating project results, and the actual price often greatly exceeds budgetary estimates. Planning for the implementation of matching funds is based on budgeting of projects costs, and if the project costs are underestimated, it can very easily lead to inadequate matching funds, blocking project development.

**(3) Some agricultural projects are rather lacking in the ability to pay back loans.**

As of the end of June 1991, approximately one-third of the 29 World Bank agricultural project loans that China had initiated had the loans falling due. It is understood that generally speaking World Bank loan agricultural projects were remarkably successful. The economic and social returns of some projects were both good and the loans were paid back promptly. But quite a few projects also had inadequate funds to pay back the loan and there was quite a large hidden danger. A few projects did not pay back the loan promptly and were even behind in the payment of principle, interest, and fees on loans that were due. According to a partial survey, the main reasons were the following.

**1. The debt awareness of some project units and individuals was not strong.**

Since reform of the economic system, China has gradually established and perfected a new agricultural investment mechanism where the state, collectives, and individual peasants together contribute to agriculture, but the peasants are the principal fundraisers and state agricultural expenditures are gradually changing from totally carrying out uncompensated appropriation in the past to combining uncompensated appropriations with revolving compensated use. But some comrades who formed traditional ideological concepts under the old system have not changed and they do not have a strong awareness of debt. Whenever they encounter difficulty or disaster, they feel at ease and justified resting on the state or being in arrears on loan principle and interest due the World Bank. Some do not even intend to repay, placing their hopes on the state to ultimately reduce or remit the debt.

**2. Some projects lack direct financial benefits.**

Based on the state's policies of augmenting agricultural capital construction, promoting scientific and technical education to make agriculture prosper, and increasing agricultural development reserve strength, China has used World Bank loans to develop a group of foundational agricultural projects aimed at augmenting agricultural reserve strength (including farm water conservancy and irrigation projects, agricultural science and technology education projects, and tree planting and afforestation) to build a large agricultural infrastructure. Generally, in basic agricultural projects, the investment is great, they are long in developing, and they are slow to see results. Moreover, their results are extensively social, hidden, delayed, and a value cannot be put on them. At the same time, it also is very hard for one project to have an effect in these predominantly agricultural infrastructure projects, often the social and ecological results are extremely obvious, but the financial results are not so obvious. On the contrary, the project unit does not have strong capability to pay back the loan and there is difficulty paying back the loan.

**3. For some projects the overall results are disjointed from partial pay-back capability.**

Because agricultural production is greatly affected by external conditions, and because of such reasons as the production conditions of several localities differing greatly, and in addition, within the project unit the production and business capabilities of agricultural households are uneven, some projects have overall very good results, but are lacking in partial results. Even very successful projects often have difficulty repaying the loan because the income of individual units or a few agricultural households is so small that they even sustain losses.

In addition, some projects or subprojects support agricultural development of poor regions and old revolutionary areas. Because these areas lack a base and have a weak foundation, have a low rate of commercialization

of agricultural products and byproducts, and their commodity economy lacks development, the results of the project (or subproject) are largely expressed in increased volume of agricultural products and byproducts, bringing the project unit or the vast majority of individual agricultural households not much monetary earnings and a great deal of difficulty paying back the loan.

#### 4. The risks of agricultural production are great.

The risks of agricultural production and business are extensive. The main business risks of agricultural projects are: 1) product and output risks; 2) market and price risks; and 3) the risk of unexpected disasters. Presently the ability of China's agriculture to resist natural disasters is still rather weak. Almost every year they sustain rather great losses because of this. In addition, with the development of the rural commodity monetary economy, the agricultural economy also often faces complicated, ever-changing international and domestic market and price risks.

Moreover, the share of funds that World Bank loan agricultural project units and agricultural households have themselves is very small and the financial leverage (ratio of debt to their own capital) is very high. Under normal circumstances, a comparatively high financial leverage can spur the growth of their own assets, but it also increases the risk of losing their own capital and the monetary risk.

In sum, World Bank loan agricultural projects assume huge risks, but the project units and agricultural households have limited capability to assume risks. Various risks often cause some project units and agricultural households to suffer heavy losses and because of this there often is no way to accomplish the loan repayment plan.

The Ministry of Finance represents the state debt and it is the "guarantor" of the repayment of World Bank loans. If a project unit or agricultural household has a problem paying back a loan, the debt ultimately is assumed by the Ministry of Finance and it thereby becomes a huge burden on state finances.

#### (4) Project foreign exchange risk losses are great.

Part of the agricultural loans that the World Bank makes to China are "hard loans" calculated in US dollars and part are "soft loans" calculated using special drawing rights. Generally, World Bank loans are mainly paid from the World Bank transfer account in the form of material tendered bid purchases and only the comparatively small amount for local expenses can be paid back to the World Bank with a certain proportion of spot exchange. When loans are paid back, the project unit must purchase foreign exchange (US dollars) in the foreign exchange adjusted market to pay back principle, interest, and fees on the loan. If they are paying back a soft loan, they still must pay it back converting U.S. dollars to the special drawing rights. China uses a "pegged creeping exchange rate system." The renminbi

exchange rate can change at any time. At the same time, the U.S. dollar's value to special drawing rights also is constantly changing. So, World Bank loan agricultural projects have objective exchange risks.

The World Bank loans that China uses are transferred down several levels and correspondingly the main exchange rate risk is assumed by the project unit and some is assumed by the grassroots financial department in the project area. In the last decade or so, China has adjusted the value of the renminbi down rather greatly several times. The value of the renminbi relative to the U.S. dollar has gradually been adjusted down from 1.7:1 in October 1981 to the present 5.45:1. Project units and the grassroots financial departments sustain very big exchange rate risk losses. At the same time, in recent years, the U.S. dollar has been continuously devalued relative to special drawing rights and the burden of repaying World Bank loans has consequently become heavier and because of this exchange rate risk losses have been sustained.

In today's world the international politico-economic situation changes in an instant and it is inevitably difficult to avoid fluctuations in the exchange rate. The relative value of the renminbi to the US dollar or of the U.S. dollar to special drawing rights can change at any time. This means that the World Bank agricultural project exchange rate risk problem could always be present.

Presently, a considerable portion of World Bank loan agricultural projects' exchange rate risk is assumed by grassroots financial departments, but grassroots financial departments often lack the sources of funds to be used in assuming exchange rate risk losses and even more do not have practical and feasible measures and methods to deal with it. As time goes on, the exchange rate risk losses pile up and ultimately they become a huge financial burden and it is difficult for project units and agricultural households to use additional funds to assume the huge exchange rate risk losses.

#### (5) Problem managing loan recovery recirculating funds.

After the World Bank agricultural loan made to China is transferred down from the central government, the province, municipality, county, and township again transfer the loan down to the project unit or agricultural household. In the loan transfer, loan conditions that are transferred at each level (such as transfer loan time limits and interest rates) are often not consistent. The transfer loan time limit generally is shortened slightly and the transfer loan interest rate gradually raised at each level. So, some World Bank loan principle and interest can be regained from the lower echelon before it is returned to the upper echelon. Therefore, idle funds occur in some segments of the graduated repayment process, the so-called loan recovery recirculating funds.

It needs to be pointed out that World Bank loan recovery recirculating funds generally are only in the middle and late period of the World Bank loan time limit. But the

closer to the grassroots, the earlier the time that the loan recovery recirculating funds occur, and some project area counties (municipalities) have loan recovery recirculating funds rather early (for example, World Bank loans used for changing value import materials, sometimes can be recovered in one or two years) and the amount still is not small. If the use of these funds is not well managed, it can lead to duplicate construction and can easily create loan recovery funds that after they have been circulated and used cannot be promptly paid back, ultimately seriously affecting the prompt and adequate repayment of loans at graduated levels.

It is understood that some comrades do not take management of the use of loan recovery recirculating funds seriously enough and relevant management systems and methods are not sufficiently perfected. Some localities do not have strong management of the use of these funds and funds that should be recovered are not promptly recovered and are used for a long time by another unit without compensation or the use and investment orientation of funds are not accurately controlled. Some funds are invested in distant project areas or distant agriculture. On the contrary, funds that are urgently needed for project development and further development sometimes cannot be very well implemented.

This author believes that the above problems are mainly created because China started rather late in these respects and does not have adequate experience. To improve China's management of agricultural projects on which it uses World Bank loans and further improve the results from the use of funds, we must persist in being directed by relevant state policies with the goal of deriving the greatest results from projects and, while not violating relevant World Bank regulations, constantly learn from our experiences and boldly seek and adopt positive, effective measures to gradually solve the problems described above and thereby constantly promote the intensification of the management of the projects on which Chinese agriculture uses World Bank loans.

## II. A Few Suggestions for Improving the Management of the Agricultural Projects on Which China Uses World Bank Loans

### (1) Further order the project management system.

The author believes that in ordering the project management system, the key is reasonably delineating the implementation and management responsibilities and authority among relevant departments, standardizing the forms and methods of project management, forming unified leadership between relevant departments and upper and lower echelons, and having a project management system with division of labor and cooperation, each attending to his duties, and each fulfilling his responsibility to the utmost. Thus, the enthusiasm of every relevant sector will be aroused and every aspect of mutual cooperative relations will be lubricated to carry out unified leadership and

uniform joint management. Some concrete ideas on further ordering the management system for World Bank loan agricultural projects are:

First, to persist in further improving "the establishment of project leadership groups." This is a good method that is very successful. That is local governments at every level in the project area establish a leadership group for agricultural projects for which World Bank loans are used from government department heads and people in groups responsible for such aspects as finance, planning, professional management, the agricultural bank, and auditing to take responsibility for unified leadership of project management, make collective decisions on major relevant issues, coordinate the mutual cooperation of relevant sectors, and take responsibility for assessing and evaluating the successful progress of every relevant aspect of project management.

Secondly, have the financial departments make full use of their inherent function to strengthen overall project management. Specifically, from preliminary discussion of the project, the early stages of preparation, controlling the scale, and determining and making timely adjustment in the content to implementing project matching funds, financial management, and repaying the principle and interests and fees, the financial departments should actively participate and take the initiative in managing. I personally believe that the World Bank loans used are long-term financial credit funds and they should be managed in a manner comparable to long-term financial credit funds expended to agriculture with the financial departments playing the major role and corresponding professional departments actively assisting. With unified leadership and based on division of labor and responsibility, the financial departments should focus on getting a good command of the management of funds, finances, materials, and debts as the key to overall management.

In addition, the relationship between the central and local governments in project management should be appropriately adjusted. Generally, World Bank loans are directly transferred from the Ministry of Finance to local governments, as appropriate, to implement the so-called "local project" loan transfer formula, reduce the intermediary stages, and appropriately expand local management autonomy. Especially the discretionary adjustment of central policy on project planning, examination and approval, and management gives the locality even greater flexibility in determining and making timely adjustments in project content and increases the project's capability to adapt to changes in the market and other aspects of the external environment.

### (2) Do a good job of implementing matching funds.

Getting good control of the implementation of the matching funds required by World Bank loan agricultural projects is an important component in further improving project management. The author believes that the following few aspects are key to resolving the

problem of implementing matching funds for World Bank loan agricultural projects.

### 1. Strictly screen project establishments.

Project establishment means that the prelude to setting up a project is getting the preliminary approval of the relevant state department. Once the project gets establishment approval it means that preliminary approval has been given to such concepts as the scale, contents, goals, and benefits of the project and it can be listed as a preliminarily selected project to be submitted to the World Bank for selection. On this basis, a preliminarily selected project, after the Chinese Government gets agreement of commercial banks and the World Bank, can begin to prepare the project. It is understood that every year a great many agricultural projects from localities throughout the country that would use World Bank loans are proposed to be submitted to be approved for establishing the project. With an attitude of seeking truth from facts, reasonably determining the scale and the content of the preliminarily selected projects and appropriately arranging the establishment of the sites (areas) and the times, and strictly checking the examination and approval of project establishments is the first step in conscientiously implementing matching funds.

Doing a good job of examining and approving project establishments requires that the planning department find out before hand about the general situation of the projects being submitted for approval and understand the capability of that locality to assume matching funds. To do a good job of screening project establishments, the financial sector must also do a great deal of work. If the Ministry of Finance, when it selects a project for submission to the World Bank, before the fact enhances its investigation and understanding of such circumstances as the scale of the project, sources of matching funds, and the project's forecast results, and has a core understanding, it will select the best for submission. The local finance department along with relevant departments then can actively complete the submission of the project proposal for examination and approval and actively participate in the drafting of the decisions on the scale and the content of the project, while conscientiously doing a good job of preliminary preparations of the project.

### 2. The state should make discretionary arrangement of a certain amount of noncompensated allocations to be used as project matching funds.

In consideration of such actual situations as that a rather sizable portion of World Bank loan agricultural projects are agricultural capital construction and the social benefits and ecological benefits of the projects are quite clear and that the relative agricultural benefits are rather low, as well as that funds are presently tight in some localities and there are not enough matching funds arranged as

required for establishing some World Bank loan agricultural projects, I propose that the state adopt an appropriate form of discretionary arrangement of some non-compensatory appropriation to support those World Bank loan agricultural projects that are predominantly agricultural capital construction, where the social benefits and the ecological benefits are clear and the financial benefits are lacking and reduce the burden on the project unit.

### 3. Increase the seriousness of the relevant sectors toward promising matching funds.

Considering that World Bank loan agricultural projects are externally related, priority guarantee of the matching funds required by the projects is extremely necessary. One of the keys to that is establishing a set of oversight and restraining mechanisms to further increase the seriousness of promising matching funds. I propose that the leadership group at every project level be responsible for unifying the arrangement and implementation of the promising of matching funds by all relevant units at their level and signing promissory agreements at each level, making every effort to put an end to the irresponsible activity of specific departments and units in implementing the matching funds required for projects.

At the same time, in accordance with the project progress plan, we should appropriately arrange due times for matching funds. Generally, matching funds should be early enough to guard against funds and materials' being disjointed from project development.

### 4. We should put forth a great effort to mobilize agricultural households in the project area to contribute their labor and make reasonable calculation of labor deductions.

A rather large share of World Bank loan agricultural projects generally are local construction projects. For such projects as earthwork excavation; building roads, bridges, and culverts; earth leveling; and housing construction, contribution of labor can be substituted for some contribution of funds. One effective way to solve the need for matching funds on agricultural projects is to use the agricultural slack season to actively mobilize the vast numbers of agricultural households in the project area to contribute their labor and, in accordance with relevant state regulations, reasonably determine the daily value of the labor and properly calculate the labor deduction.

### (3) Establish a "debt repayment fund."

The production and business risks and the exchange rate risks assumed by agricultural projects for which China uses World Bank loans are rather great and there are quite a number of debt repayment problems. This objectively demands that project units and project management departments further enhance debt awareness and risk awareness and in the project deliberation and preparation stages, fully consider project risks and the capability to pay back loans to build in sufficient substitute

factors and leave sufficient margin. At the same time, there should be strict project loan transfer agreements. Project units must promptly pay back sufficient amounts on loan principle, interest, and fees that come due and assume project risks. On this basis, I propose that the financial departments establish debt repayment funds and fully utilize the lack of time and lack of interest on currency funds to accomplish a debt repayment fund revolving appreciation and use that to compensate for some of the exchange rate risk losses and other risk losses that the project might suffer, and as quickly as possible eliminate the danger to agricultural project loan repayment and reduce the burden on financial and project units.

I propose that the debt repayment fund first implement a fund source. The author believes that the source of the fund should be mainly raised by the project itself and the state can give a little support at its discretion. Specific ideas are:

1. To include the project's World Bank loan recovery recirculating fund in the debt repayment funds. We talked about the loan recovery recirculating fund previously. Local financial departments at every level can get control of certain loan recovery recirculating funds and the whole thing can be used to establish a debt repayment fund.

2. The incremental income from circulated use of the debt repayment fund can be used to further increase the fund itself. After the debt repayment fund is established, we should strive to do a good job of managing the use of the fund and actively invest it in rapidly effective, good performing, and fast paying "short, stable, and fast" projects to realize revolving increment of the fund and constantly increase the size of the debt repayment fund. If a project has risk losses, they should first be assumed by the project unit and individual agricultural households as much as possible; then, consideration should be given to the debt repayment fund's assuming part of the risk loss.

For individual projects that suffer rather large risk losses and the project unit is powerless to assume them, if we only rely a little on the recovery recirculating fund, the size of the debt repayment fund would necessarily be made smaller. Moreover, the debt recovery recirculating fund will ultimately be used to repay loan principle and interest. So, if possible, it is extremely necessary for the local financial department to arrange some funds from their reserves at their discretion to further increase the debt repayment fund.

**(4) Implement a "preferential foreign exchange security loan" policy for World Bank loan agricultural projects.**

In World Bank agricultural loans, often part of the loan (mainly the portion that the World Bank pays for project local expenses) can be paid in spot exchange. For some projects the portion paid in spot exchange is rather high and the amount is rather large. It is understood that a great many project areas because there is no way to raise the spot exchange value in renminbi to settle the account

often are forced to settle in exchange and when they pay back the World Bank loan again use renminbi to purchase foreign exchange for the prepayment and they can easily suffer foreign exchange risk loss. If a special bank provided the World Bank loan agricultural project with a foreign exchange security loan (that is the project area would deposit the spot exchange to settle the account in the special bank and use it as security and apply to the special bank for a renminbi loan calculated at the current exchange rate and carry out deposit loan mutual interest exemption and the bank would collect a certain handling fee. When they paid back the World Bank loan, the project area would only need to first pay back the secured renminbi loan that the domestic special bank provided and withdraw the foreign exchange originally deposited in the bank as security and then they could promptly pay back the World Bank principle and interest). The project area then would not need to settle with foreign exchange and thereby it could avoid the exchange risk of settling the account with spot exchange.

**(5) Do a good job of managing the use of the loan recovery recirculating fund.**

The author believes that we can mainly use the following efforts to enhance the management of the use of the loan recovery recirculating fund:

**1. Augment the system of financial regulations for the World Bank loan recovery recirculating fund.**

Presently, some comrades have not taken the management of the loan recovery recirculating fund seriously enough, especially regarding an insufficiently sound financial regulation system. Some localities or projects in managing the use of the loan recovery recirculating fund do things their own way and formulate some financial management systems on their own. But because these systems are not sufficiently scientific and authoritative, the use and management of the fund is comparatively chaotic. This point is comparatively obvious in county and township project areas. So, it is an urgent matter to establish a sound unified loan recovery recirculating fund financial management regulation system.

**2. Strictly abide by transfer loan agreements and actively organize expeditious repayment of loan principle, interest, and fees that come due.**

It is understood that some loan principles, interests, and fees often are not promptly repaid when they come due and are held up in the project unit making some project area financial department management of loan recovery recirculating funds exist in name only. So, we should strive to get good control of the expeditious repayment and settling of loan principle, interest, and fees that come due. Strict enforcement of transfer loan agreements and prompt repayment of loan principle, interest, and fees and adjusted material price accounts that come due are an important link in loan recovery recirculating fund management.

**3. Get proper control of the use and investment orientation of loan recovery recirculating funds.**

Although loan recovery recirculating funds are limited, if they are used well, they can be a very great impetus to the development of the economy and the society of the project area. We should get good control of the use and investment orientation of the loan recovery recirculating fund and give priority to satisfying the production and development needs of the project area and further promote the intensified development of agriculture and the development of finished processing of agricultural products in the project area; give greater priority to project area production resource composition and key support for the weak links in overall agricultural projects and projects that can rapidly increase production and increase foreign exchange income, increase the scale of project unit production, enhance project unit scale performance, and in project development "fill up the gaps" and promote the improvement of the overall comprehensive performance of the projects.

**4. By the circulation of the loan recovery recirculating fund, we should promote the repayment of loan principle, interest, and fees that come due.**

First, we should strive to reflect the policy of "rewarding the excellent and limiting the inferior" in the use of the loan recovery recirculating fund. We should give precedence to satisfying those project areas (or subproject areas) and project units that have high management standards, great potential to develop production, and a good reputation for paying back loans and concentrate on supporting those project units and agricultural households that have potential but are in temporary production or business difficulty. For those project areas and project units that have poor business management, are lacking in performance, and are not active in repaying loan principle, interest, and fees, on principle, we should not consider loaning them loan recovery recirculating funds. We should use this to promote the repayment of loan principle, interest, and fees that come due.

**5. We should persist in the principle of optimum investment returns on the use of loan recovery recirculating funds.**

The loan recovery recirculating fund ultimately must be used to repay loan principle, interest, and fees that come due. So, the orientation of its use and the units to which it is issued must be carefully selected, stressing economic returns on the investment and ensuring that after it is issued, it can be recovered on time. The author believes that it is inadvisable to have too long a time period on each issue of the loan recovery recirculating fund and it is advisable to mainly issue it to "short, stable, and fast" projects that are highly related to project development goals.

**(6) Enhance monitoring and evaluation of projects.**

The development time limits on World Bank loan agricultural projects are long and project development is

complicated. In accordance with relevant state regulations and World Bank requirements, enhanced auditing and oversight of projects is extremely necessary. At the same time, further strengthening the monitoring and evaluation of various aspects and conducting follow up monitoring and evaluation helps in the timely discovery of problems and constantly reviewing and learning from experience, and effectively guards against the seizing and embezzlement of project development funds and ensures that the project's anticipated goals are totally realized.

**Getting State Out of Grain Business**

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[Article by Deng Yiming (6772 0001 7686), Rural Institute, Chinese Academy of Social Sciences: "Goal Model for Grain Circulation System Reform and Ways To Realize It"]

[Text] Author's comment: "Operation of the market by the main market entities, the state exercising macroeconomic regulation and control is the goal model for reform of the grain circulation system. Complete reliance on the market for grain circulation, the state employing economic means to regulate and control grain markets are two specific components of this model. Realization of this goal requires a decision to decentralize, and decontrol of markets first. This must be followed immediately by regulation and control measures to do a good job of reforming the procurement and marketing system, the price system, and the grain reserve system, and an effort made to build grain markets to move both grain dealers and consumers in the direction of the market." [End author's comment]

The building of a correct and lucid goal model is a prerequisite for success in reform of the nation's grain circulation system. This article maintains that "operation of the market by the main market entities under state macroeconomic regulation and control is the goal model for reform of the nation's grain circulation system, and that realization of this reform goal requires performance of a series of tasks.

**1. Implications of Model of "Operation of the Market by the Main Market Entities With State Macroeconomic Regulation and Control"**

The model of "market operation by the main market entities with state macroeconomic regulation and control" has its own distinctive implications: Market operation by the main market entities means letting markets operate themselves. If the market functions normally and operating efficiency is very high, the state need not intervene. If the market is unable to operate normally, the state must employ economic means to intervene in a "friendly" and "gentle" way that helps market development. This intervention should be effective, realistic, and flexible.

The grain circulation system model contains two components: One is complete decontrol of grain circulation, the markets performing all grain transactions. Grain procurement and marketing prices are to be based on market supply and demand, administratively set prices abolished. Grain producers, dealers and consumers are to turn toward markets, the market thereby truly becoming an independent juridical person whose conduct is limited only by the law and market competition. The market makes its own decisions within the limits of the law free from administrative direction. The market is not dependent on any organization or government agency, nor is it under jurisdiction of any government department. All existing administrative jurisdictional relationships are cancelled. The position among enterprises within the grain system as well as among enterprises outside the system is one of equal competition. As Marx said: "Commodities are a natural equalizer." [Footnote: See Marx *Das Kapital*, Vol 1, p 103]. There are no enterprises that have special rights. Second is a change in government functions. Government use of administrative orders to regulate and control grain procurement and marketing would have to be changed to the use of economic methods such as prices, taxes, and finance to regulate and control the grain markets. Were grain markets to be fully decontrolled, the market would become an independent juridical person; however, continued retention of irregular state administrative regulation would impede the normal operation of the market and lower market operating efficiency.

## 2. Strategic Plans for Grain Procurement and Marketing System Reform

Once a goal model is set, much work must be done to attain it. However, a strategic plan for reform must first be decided upon inasmuch as this is the key to success or failure, and low or high efficiency in reform. Once a complete reform goal model for the whole country has been decided upon, how to reach this goal as quickly as possible depends on the suitability of strategic decisions.

A) Decentralized decisionmaking paramount in the link up between decentralized decisionmaking and full promotion nationwide.

This is the relationship of parts to the whole, and between local government and central government system reform. Once the strategic goals for reform have been set, should the central government uniformly prescribe the time table for reform, everyone advancing toward the goal in lock step, or should the first steps be taken in some areas or by local governments where conditions are in readiness? This depends on what kind of reform yields highest efficiency. We believe that a strategy that combines decentralized decisionmaking and full movement ahead throughout the country yields the highest efficiency and produces the least shock. This is because, first, China is a vast land in which great differences exist between individual regions because of

their geographic position, their natural and socioeconomic conditions, and the level of their economic development; thus, their tolerance of reform is not necessarily the same. Second, decentralized decisionmaking, getting started ahead of time in some areas, can provide experiences and lessons for overall reform nationwide. These areas can serve as "test areas" or "debugging areas." Successful experiences in these areas can provide guidance for the country as a whole, thereby accelerating the pace of reform nationwide. Even failure in these areas would not shock the entire country greatly. However, decentralized decision making does not mean that the central government can watch from the sidelines. On the contrary, complete reform nationwide must be done in concert with reform in the areas that start first. For example, a central government call for identical buying and selling prices for grain nationwide could spur reform toward market grain sales in advanced areas without a feeling that advanced areas were making the plunge alone. Third, for developed areas to move ahead first with the decentralized policy also expresses the gradual nature of reform. When the most advanced areas in the country join the ranks of reform, a nationwide complete reform plan can be inaugurated.

B) Market decontrol in combination with associated actions, market decontrol coming first.

This strategy relates to the issue of whether the move toward markets or regulation and control measures should be instituted first. We advocate market decontrol first followed by complete regulation and control measure for the following several reasons:

1. Changes in the Social and Economic Order in Areas That Act To Decontrol Markets First Will Not Cause Shock.

Since 1998, State Council economic system reform test areas such as Zhuozi County in Inner Mongolia, Guanghan County in Sichuan, Zhuhai and Shenzhen in Guangdong, and Hainan Province have first decontrolled markets. Following market decontrol, the three thorny problems about which people were most concerned were the tolerance of consumers and enterprises, as well as the effect on the price index. However, experience in market decontrol in Hainan Province shows that these three problems were also resolved without a hitch. No great shock was caused throughout the province; market prices remained relatively stable; the tolerance of enterprises was much better than anticipated; and the public not only had no complaints, but gained benefit. Hainan's experiences can serve to clear away unnecessary worries about market decontrol.

2. Readjustment and Control Measures Should Immediately Follow Market Decontrol.

Once markets are decontrolled, numerous new problems are bound to arise inasmuch as the old system has not been completely destroyed. This means that the central government must take positive attendant actions. We found that in areas that acted first in decontrolling

markets, the volume of grain sales in state-owned grain shops declined. Not many people bought grain. It was difficult to sell grain. This resulted mostly from the existing wrong mix of grains on hand and their too long a period in storage. As the standard of living rises, the kinds of grain available are at variance with the kinds for which demand exists. This means that the central government must relax farming plans in areas in which markets are decontrolled and widen the price differential for quality to bring into harmony the supply and demand for different kinds of grain. In addition, when grain backs up in granaries and is difficult to sell because state-owned grain businesses also seek an economic return, areas that act first to decontrol markets refuse to purchase the peasant's grain. This causes peasant "difficulty selling grain." This means that the state must open up grain circulation channels by setting up an equalization fund for use in purchasing grain at a protected price.

3. Two-thirds of commodity grain is currently regulated by grain markets, so decontrol of grain markets will not occasion a severe shock. Reform always exacts a price. The need to wait until all conditions are ripe before decontrolling markets will slow reform, which is not in keeping with the need to speed up the pace of reform. We must follow the principle that there can be no construction without destruction, making construction a part of the destruction process.

### **3. Ideas About Grain Circulation System Reform**

After deciding the goals for reform of the grain procurement and marketing system, much work must be done to attain the goals, as follows:

A) Cancellation of state fixed procurement, putting all commodity grain into markets, the state only controlling reserve grain.

The main reason for canceling state fixed procurement is that state fixed procurement no longer has an accumulation effect. Canceling it is more beneficial than retaining it.

1. Diversification of beneficiaries has led to a draining away of accumulations from grain.

During the highly centralized procurement and centralized marketing period, the state was the sole beneficiary. An overwhelming majority of the grain accumulation and industrial excess profits that the state gained through the use of administrative methods to hold down the grain procurement price and through centralized marketing was taken away by the state. Consequently, during the centralized procurement and centralized marketing period, centralized government procurement of grain at a low price produced strong accumulations. The centralized procurement of grain at low prices brought the state a cumulative 176.7 billion yuan between 1961 and 1984.

With the institution of the two track system for grain, the state financial system's institution of the system of reforms calling for dividing revenues and expenditures

between the central and local governments and holding each responsible for balancing its own budget has increased local government authority. The central government's regulation and control capability has been weakened. Reforms that have delegated authority and granted concessions to state-owned enterprises, increasing the percentage of product market sales have enabled state-owned enterprises to fend for themselves. The diversification of beneficiaries is the main reason for the erosion of accumulations from grain. Accumulations from grain have flowed to the following several beneficiaries:

First is the flow to state-owned enterprises. Now that state-owned enterprises are being reformed to turn to the market, not only has the number of products within plan for which the state sets prices decreased, but the number of prices that the market sets has increased. Enterprises firm contracting with the state of the amount of profits and taxes to be paid increased the retained profits of enterprises than can be used for staff member and worker welfare purposes and bonuses. However, included in state-owned enterprises retained profits is the benefit obtained from the state's purchase of grain from the peasants at a low price, which is passed along to staff members and workers in the enterprise through sales at low prices.

Second is the flow toward township and town enterprises. Before reform, the state limited the development of township and town enterprises. Actually the state monopolized the benefit that derived from the "price scissors" between industrial and agricultural products. Following reform, township and town enterprises developed rapidly, and also shared in the benefit from the "price scissors" between industrial and agricultural products.

Third is the flow toward local governments. As a result of local governments' financial contracting whereby local revenues paid to the central government are largely constant, most of local governments' increased revenues are retained by the local government. Some of the accumulation from grain provided the state is also retained by local governments.

Fourth is the flow toward township and town residents. On the one hand, city and town residents enjoy welfare benefits and obtain bonuses from enterprises' retained profits; on the other hand, as a result of fiscal subsidies, they also get a part of the accumulations that the peasants provide the state.

In short, economic system reform has brought about a diversification of beneficiaries. All the beneficiaries share in accumulations from grain; the period when the state monopolized grain accumulations has ended. The historical mission of grain procurement at a low price to provide accumulations for industrialization has ended, and the stage of equal benefits for workers and peasants, when industry nurtures grain production, has arrived.

**2. Rapid Decline in the Role of Grain Accumulation. No Longer Does Grain Have an Accumulation Effect on the National Economy.**

First, the percentage of the output value of grain has declined dramatically. As industrialization advances, a decline in percentage of the output value of agriculture and grain is a general law the world over. China is no exception. Statistics show the output value of grain as a percentage of gross social output value for the country figured in terms of mixed procurement prices as 22.4 percent in 1952, falling to 8.55 percent for the period 1986 - 1990. Today, the contribution that the output value of grain makes to gross output value is minuscule.

This shows that the relative position of grain in industrialization and in the national economy has fallen. The amount of accumulations it provides is relatively less. Industries other than agriculture must rely on their own accumulations for development.

Second, as a result of reforms that reduce procurement and hold down consumption, the absolute amount of accumulations from grain has also begun to decline. During the Sixth Six-Year Plan (1981-1985), net procurement of grain totaled 227.93 million tons (minus sales to agriculture). By the Seventh Five-Year Plan (1986-1990), thanks to reforms that produced stable procurement and depressed sales, net procurement was 175.34 million tons, a decrease of more than 10 million tons. The net accumulation provided the state declined from 48 billion to 14.1 billion yuan. See Table 1.

(Table 1) Changes in Grain Accumulations

	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985	1986-1990
Total Accumulation (100 Million Yuan)	1105	2047	3644	4993	8207	20,034
Grain Accumulation (100 Million Yuan)	357.1	192.6	369.8	411.4	480.1	140.8
Percentage of Total Accumulation	32.3	9.4	10.1	8.2	5.8	0.7

Note: The foregoing table is based on the 1991 *Chinese Price Statistics Yearbook*, p 92. Country fair trade prices of grain were higher than the state-owned procurement price index. The grain procurement mixed price was used to determine that the market price was higher than the procurement price numerical value. This was multiplied times the net procurement amount (minus agricultural sales) to derive the amount of procurement provided the state.

Results of the calculations show a gradual decline in net accumulations from grain as a percentage of national income. During the Seventh Six-Year Plan period, in particular, not only was there a decline in absolute figures, but the relative percentage declined to 0.7 percent for a minuscule effect on accumulations.

Third, with the intensification of economic system reform, both the ownership structure and the beneficiaries became more diversified. Grain producers became independent commodity producers, and state-owned enterprises became relatively independent, power-sharing enterprises. The state's organizational foundation for mandatory accumulations has been lost. Continued suppression of grain prices can only widen the gap between supply and demand, which will hurt national economic development.

Following the abolition of state fixed procurement, the state will continue to control reserve grain to be used as a hedge against warfare or famine, to regulate the market, and for the import-export trade.

**B) Grain Price System Reform**

Grain price system reform is the linchpin of grain procurement and marketing system reform. So-called market decontrol actually means removal of administrative control over prices, the administrative setting of prices being changed to the market supply and demand mechanism deciding the procurement and marketing prices of grain.

As was said previously, the goal model for grain circulation system reform is "market operation by the main market entities with state macroeconomic regulation and control." However, once markets are decontrolled and grain prices are decided by the market supply and demand mechanism, the market supply of grain in bumper harvest years may exceed demand. Then grain prices will drop tremendously, hurting the interests of grain producers. In lean years when market demand for grain exceeds supply, the rapid rise in grain prices will hurt the interests of consumers. This means that the state must employ regulation and control measures to stabilize market prices. Usually the countries of the world apply a floor price and a ceiling price, and they stabilize market grain prices by withholding or dumping grains reserves on to it. In bumper harvest years when grain prices are lower than the floor price, the state engages in support procurement to reduce the market supply of grain. The price then rises to protect grain producers. In lean years when grain prices rise, the state dumps reserves on the market to increase the market supply of grain. Then the price drops, the goal of maintaining consumers' interests thereby attained.

**1. Drawing Up the Floor Price**

Grain is a product needed by all sectors of society; thus, the price of grain may become an integral part of the costs of all sectors of the national economy. A change in grain prices means a major readjustment of interest relationships between city and countryside, workers and peasants, and the state and the peasants. Therefore, in drawing up the floor price, it is necessary to take into

account the interests of all parties concerned. Setting the floor price too high damages the interests of consumers and the industrial sector; setting it too low damages the interests of the peasants. The experience of the countries of the world suggests that production costs, grain trade conditions, and international prices must be taken into consideration in formulating the floor price. Most of the countries of the world today use a system of complex standards, meaning that they employ many different standards to arrive at the lowest floor price. We advocate the use of production costs and trade conditions as the main elements in drawing up floor prices, while also taking account of international prices. Production cost is the main standard that all countries use in drawing up grain prices. Trade conditions are a standard that developed nations universally apply, and the number of developing countries that use this standard is also gradually increasing. Use of trading conditions theory as a basis is for the purpose of ensuring that the profit rate from grain production does not decline relative to other sectors, which is to say that like other sectors, the grain sector wants to make a fair rate of profit. Thus, we first

calculated the average social profit rate after which we figured a fair profit rate for grain, and fair profit rates for industry and agriculture. Finally we used the figure the deviation coefficient (also known as the comparative benefit coefficient) between the profit rate for grain and the average social profit rate. An  $R_j$  of less than 0 shows a negative deviation in  $j$  sector profit. When  $R_j = 0$ , the profit rate for  $j$  sector is the same as the average profit rate. An  $R_j$  that is greater than 0 shows a positive deviation in  $j$  sector profit.

$$R_j = \frac{m_j - \bar{m}}{\bar{m}} \times 100\%$$

By using the grain price deviation coefficient for grain production costs and grain trading conditions, we were able to derive the floor price for grain (See Table 2). The formula is  $P = P^0(1-R_j)$ . In the formula,  $P$  is the floor price;  $P^0$  is the current mixed procurement price, and  $R_j$  is the price distortion coefficient.

(Table 2) Grain Floor Price—Units: yuan per 50 kg.

Year		Mixed Procurement Price of Grain ( $P^0$ )	Price Distortion Coefficient ( $R_j$ )	Floor Price $P = P^0(1-R_j)$	Grain Market Price ( $P_1$ )	Difference Between Grain Market Price and Floor Price	
						$S = P_1 - P$	$S/P^0 \times 100\%$
1978	13.17	-1.962	39.0	38.13	-0.87	12.2	
1979	16.54	-1.153	35.56	31.25	-4.31	-12.1	
1980	18.03	-1.68	48.32	32.29	-16.03	-33.7	
1981	19.1	-1.346	44.8	34.69	-10.11	-22.5	
1982	19.61	-0.462	28.63	34.83	6.2	21.6	
1983	19.63	-0.293	25.38	29.33	3.95	15.6	
1984	19.76	-0.163	23.0	28.06	5.06	22.0	
1985	20.81	-0.230	23.6	28.9	3.3	12.9	
1986	23.29	-0.261	29.37	34.85	5.48	18.7	
1987	25.43	-0.64	41.74	1.14	-0.3	-0.7	
1988	28.19	-0.677	47.27	51.09	-3.82	8.1	
1989	37.5	-0.526	57.23	68.17	10.94	19.1	
1990	35.8	-0.384	49.55	45.38	-4.17	-8.4	
Average	21.88	-0.705	37.31	39.88	2.57	6.9	

Source of Data: Ministry of Agriculture: "Agricultural Economy Data" (1949-1983); *China Statistical Yearbook*, (1991)

The Table 2 calculations show an average floor price of 37.31 yuan per 50 kilograms for the period 1978-1990, 70.5 percent higher than the average mixed procurement price and 6.4 percent lower than the market price. Thus, we can conclude that a floor price that is 5 percent lower than the market price is about right. The country's ability to provide financial support does not permit maintenance of the floor price above the market price. (That is the support price that is frequently used in developed countries.) To do so would both increase government outlays without helping peasants reserves. If the five year average price is used as the floor price of

grain for the following year, the five year average floor place for the period 1986-1990 is 45 yuan per 50 kilograms, and the mixed procurement price is 30 yuan, which is only a 0.15 yuan per shijin increase over the current five year average mixed procurement price, a not very large increase. The floor price is 95 percent of the five year market price, which is to say it is 5 percent lower than the market price.

After setting the floor price for grain on the basis of grain production costs and grain trading conditions, we must make a comparison with the international price. The

domestic price should not deviate too much from the international price; otherwise, grain imports and exports will be hurt. The floor price we arrived at is 45 yuan per 50 kilograms. In 1989, the average world price for rice, wheat, and corn (simply the average price) was 44.60 yuan per 50 kilograms. [Footnote: See State Commodity Prices General Administration, Price Research Institute: "Foreign Price Data," p 3] Thus, we set a ceiling price fluctuating between 15 and 20 percent above the floor price as the highest limit. Specifically, the following formula may be used to derive it:  $PC = P(1+X\%)$ . In the formula, PC stands for the maximum price; P is the ceiling price, and X% is the percentage of upward rise. When the floor price is 45 yuan per 50 kilograms, the maximum price limit is  $PC = 45(1+15\%) - 45(1+20\%) = 51.75 - 54$  yuan/50 kg. On the basis of experience during the period of China's economic recovery, only when the price is 5 percent lower than the listed price should intervention occur. The upper limit for government intervention in markets should be increased to between 20 and 25 percent, and the lower limit should be increased to 5 percent below the floor price for initiating procurement to support the price.

C) Regulation and Control Measures for the Establishment and Perfection of a National Stable Market Price for Grain

Stabilization of grain prices is a general goal that nations pursue in instituting a market economy. This is because large ups and downs in grain prices cause very great economic losses for both producers and consumers. Grain price instability may increase instability in other economic sectors, and government revenues may decrease. Therefore, every market economy country intervenes in grain market prices. The intervention methods they use are as follows:

1. Establishment of a grain regulation reserve. This is a frequently used means of regulating and controlling market grain prices. Its goal is to use the movement in opposite directions of the amount of grain reserves made available and changes in market grain prices to reduce price fluctuations. Establishment of a grain regulation reserve poses numerous problems that must be solved. Once is determination of the optimum size of the reserve. A large reserve increases reserve costs; a small reserve makes the stabilization of market grain prices impossible. Second is the source of reserve grain. Third is the correlation between reserve grain and grain imports and exports.

a. Determination of the optimum size of the reserve. The experience of various world countries suggests that a grain reserve for regulation purposes should amount to approximately 20 percent of total grain sales. In order to stabilize market grain prices in Shanghai in 1950, state-owned grain enterprises sold grain on the market at 29 percent of the total volume of market trading. Total grain sales in 1990 resulting from state fixed grain procurement, procurement at negotiated prices, country fair trade sales, and peasant sales to nonagricultural

residents, plus grain imports amounted to 146.35 billion tons. Figured at 20 percent, the amount of the grain reserve should be 29.27 million tons (568.54 billion jin). After factoring in various unforeseeable factors, the optimum grain reserve for price regulation purposes should be set at 30 million tons (60 million jin). This means only that reserve grain used to stabilize grain prices is a portion of total national reserves.

Is 20 percent of total market demand the optimum reserve for price regulation? We used China's Taiwan Province as an example to provide an answer. Taiwan Province's average grain output between 1980 and 1984 was 3.26 million tons. Calculation of a 20 percent optimum reserve on the basis of the 1984 output produces a figure of 600,000 tons (grain output for the year was 2.871 tons). A 600,000 ton reserve is 18.4 percent of the average annual output for the period 1980 - 1984. Maintenance of 600,000 tons of grain in public granaries would mean an average 8.99 percent rise in the average market price of paddy. Were the amount to be increased from 600,000 tons to 1 million tons, the rate of increase in the price of husked rice would decrease to 4.75 percent. Basically, for every 100,000 ton increase in the amount of grain in public storage, the price per 100 kilogram of husked rice falls NT\$31. [Footnote: See Wu Dayi [0702 1129 3085]: "Procurement and Marketing Systems and Price Policies for Agricultural Products in Various Countries"] At a rate of NT\$7 equals 1 yuan renminbi, an optimum reserve of 600,000 tons would mean an increase in the price of paddy by only .044 yuan per year. Figured at our market price of 45.38 yuan per 50 kilograms of 1990, a 20 percent of total sales reserve totaling 30 million tons would produce an 8.99 percent per year price rise, meaning a 4.08 yuan per 100 jin rise in prices, each jin rising .0408 yuan in price, an amount that consumers are fully able to bear.

b. Maintenance of Grain Reserves for Market Regulation

After determining the optimum grain reserve for market regulation, application of this reserve to maintain market grain prices between the floor price and the ceiling price requires superb management skill. This is because, first, storage costs increase extremely rapidly. Second, if the correlation between the ceiling and floor price of grain and the reserves for regulating the market is not handled well, the policy of reliance on reserves for market regulation will fail. If the floor price is set too high, a large amount of money will have to be paid to buy grain in the hands of the peasants during bumper crop years. A study done in Taiwan Province shows that for every 1 yuan higher the floor price is set, the amount of grain in public storage increases by 180,000 tons. Not only do outlays for procurement increase, but the amount of grain in storage rises sharply too, thereby increasing storage costs and increasing losses. If the ceiling price is set too high, even though it may be possible to decrease national grain subsidies, consumers will suffer. After several consecutive years of bumper harvests followed by several consecutive years of lean

harvests, in particular, the amount of money needed to maintain grain reserves at a reasonable level will be extremely great.

#### c. The Floor Price and the Ceiling Price Should Be the Same as the Grain Import-Export Price

As was said above, drawing up the ceiling price for grain requires consideration of the international price. The ceiling price should not differ too much from the international price. We suggest that the floor price of grain should be basically the same as the export price, and the ceiling price should be the same as the import price.

d. Sources of grain for the regulation reserve. The optimum grain reserve might be set at 30 million tons, an amount that could be completely satisfied through changes in procurement and taxation reform. During the period of national economic recovery, the agricultural tax was collected at 13 percent of total income from agriculture. This included a grain tax amounting to 8.3 percent of total grain output in 1950, 8.1 percent in 1951, and 6.5 percent in 1952, i.e., a 7.5 percent average for the three years. If we were to set the agricultural tax rate at 6 percent, 267.7 billion jin of grain could be obtained from the 1990 grain output, almost enough to satisfy the needs of the price control reserve. The remainder could be purchased on the market.

#### 2. Establishment of a Stabilization Fund

Experience the world over shows that having funds and savings sufficient to permit acceptance of all the surplus grain that the peasants can provide is a basic requirement for maintenance of a floor price and a ceiling price. If market prices slide, and the government cannot ensure that it will buy at the previously announced floor price, then setting a floor price becomes totally useless. Calculations show a stabilization fund of 33.3 billion yuan is needed to stabilize market grain prices.

The source of the stabilization fund is the national treasury, and grain subsidy funds may be put into the equalization fund. Shortfalls may be made up through bank loans.

#### 3. Establishment of a Flexible Import-Export Mechanism To Stabilize Market Prices

The main risk in using a floor price when buying grain to be used in stabilizing market prices is that it may produce an enormous amount of grain in storage resulting in a dramatic rise in storage costs. Therefore, after decontrolling the grain market, the government must set up a flexible import-export system at once to export grain in bumper harvest years. When necessary, it should take an economic loss in order to reduce the amount of grain in storage in order to reduce storage costs. At the same time, it should cut back on the amount of grain it supplies to the market so that the producers' price does not drop greatly for a stabilization of market grain prices. In lean grain harvest years, grain should be imported to increase the market supply of grain, thereby

lowering domestic grain prices and stabilizing prices for consumers. Use of a flexible import-export mechanism to regulate the supply of grain on the domestic market through imports and exports will permit the maintenance of price fluctuations within the prescribed limits. In this connection, it is suggested that once all grain is bought and sold through markets, the State Grain Reserve Administration and the Grain Import-Export Corporation will work together as a state-owned equalization mechanism responsible for stabilizing domestic grain markets and for grain imports and exports.

#### D) Establishment of Futures Markets To Stabilize Grain Prices

Once grain markets have been decontrolled, futures markets should begin to be established. As a means of regulating and controlling the market, the establishment of futures markets will help protect the interests of both producers and consumers, and play a role in stabilizing grain market prices. Most people are aware that grain market prices depend on the relationship between supply and demand. When supply is greater than demand, grain prices fall; when demand is greater than supply, grain prices rise. However, changes in futures market prices and spot market prices move in the same direction. When grain supply is greater than demand and market prices fall, the traders who buy will cause a brisk demand for grain by signing large numbers of futures procurement contracts. This brings supply and demand into line with each other and restrains the fall in grain prices. When grain supply does not meet demand and market prices rise, traders who buy futures will unload a large quantity of futures, thereby increasing the market supply of grain. This will ease the conflict between supply and demand and restrain a rise in grain prices. In this way, prices throughout grain markets are held within reasonable fluctuation limits.

Once markets have been decontrolled the above four kinds of regulations and control methods for stabilizing market grain prices should be established and perfected at once; otherwise, should failure of regulation and control measures to keep pace result in tremendous fluctuations in grain market prices, market reform for the handling of all grain transactions could fail.

#### 1. Various Price Differences To Maintain Grain Markets

Grain market price difference includes the difference between purchase and sale price, seasonal price differences, wholesale and retail price differences, regional price differences, and quality price differences. Formulation of these various market price differences is a key measure for insuring normal operation of markets. The formulation of these various price differences holds special importance for the grain situation in China today. China's grain economy is still largely a product economy in which market prices continue to play a very small role. Not only is there no regular difference between purchase and sale prices, but the purchase price is higher than the

sale price, thereby causing a tremendous rise in government costs and huge losses in grain-dealing enterprises. Because of the lack of seasonal price differences, the state bears all the storage costs. However, it still urges the peasants to sell all their surplus grain to the state immediately following the harvest, thereby transferring to the state all of the storage costs and risks. Because of the lack of regional price difference, areas that market grain do not want grain from producing areas in bumper harvest years, and in lean harvest years, producing areas will not sell to marketing areas, and they set up checkpoints to intercept it so that grain does not circulate well. Lack of quality price differences means that low quality grain cannot be sold while supplies of premium quality grain cannot meet demand. An urgent need exists today for the formulation of differential prices. Formulation of price differences should best be completed before control of grain markets.

#### E) Building of a Market: Moving Both Grain Dealers and Consumers Toward Markets

Decontrol of grain markets and impelling both grain dealers and consumers toward markets should be done at the same time. Markets cannot operate in a situation in which the main market entities are lacking and markets exist in isolation from each other. It is generally acknowledged that grain producers, dealers, and consumers are the three main entities in markets (grain processors are included with grain dealers). Today, it is only grain producers who are not fully a market entity, and grain dealers remain units subordinate to administrative organs who are not independent commodity dealers. Consumer grain demand remains subject to a fixed ration; consumers cannot make purchases in markets, so they are also not independent market consumers. Since two of the three members of the market production-dealer-consumer chain are lacking, markets cannot operate.

1. Impelling grain dealers toward markets. Market grain dealers include state grain enterprises, supply and marketing cooperative collective enterprises, privately owned grain shops and individual grain peddlers. Impelling grain dealers toward markets means impelling state-owned grain enterprises toward markets inasmuch as they are the main entities in grain market dealings. They have a large organization, their network outlet points cover the entire country, and they have approximately 80 percent of the monopoly on commodity grain dealings. Impelling state-owned grain enterprises toward markets requires solution to two problems: One is thorough separation of government administration and enterprise management; the other is no further formation of trade monopolies.

##### a) Basic Implications in Impelling State-Owned Grain Enterprises Toward Markets

First of all, state-owned grain enterprises must truly part company with the state. The umbilical cord that connects enterprises to the state must be severed. A share system should be put in place for the state-owned assets of enterprises, stocks and assets inventoried as a prelude

to the conversion of state-owned assets into shareholdings, state equity rights maintained in the form of shares. No longer would the relationship between the state and enterprises be one of higher and lower level, but rather a relationship between one shareholder and another, and between shareholder and manager. The state's influence on enterprises should be expressed through recommendations of shareholder meetings or the board of directors. The benefit relationship between the state and enterprises is to be one of the enterprise paying taxes according to regulations, and the state paying the state dividends on the shares it holds. There is to be no other relationship at all. Enterprises are no longer to accept orders from the state. Enterprises would only operate their own enterprise in accordance with market principles within the purview of the law, enterprises thereby obtaining ownership rights as juridical persons.

Second, the right to make their own operating decisions, to bear responsibility for their own profits and losses, to limit themselves, and to develop themselves must be accorded enterprises. By so-called making their own decisions is meant according enterprises personnel, finance, materials, production, supply, and marketing authority. Enterprises must be free to hire labor, assign labor, sets grades, and fire staff members and workers. Enterprise managers may not be government appointed but chosen by either a staff member assembly or a board of directors. Enterprises should have the right to use their own funds without government examination and approval. Enterprises should make their own decisions entirely about grain procurement and marketing matters, the government no longer handing down procurement or marketing directives. Since government and enterprises are completely separate, no longer would enterprises be responsible for enterprises profits but the state be responsible for enterprises losses as is now the case. After becoming responsible for their own profits and losses, only those enterprises having the ability to repay would be able to obtain loans. Money-losing enterprises will have to declare bankruptcy; they could not be kept afloat by the treasury or by banks.

Responsibility for their own profits and losses is a prerequisite for enterprises exercise of self-restraint. Only when restrained by responsibility for their own profits and losses can the leaders of enterprises be motivated to make a profit for the enterprises, not put cronies in key positions, and do business in violation of the law. Moreover, when the manager is appointed by the board of directors, he is subject to the supervision of the large number of stockholders.

Impelling enterprises toward market also requires the nurturing of enterprise self-development capabilities. Enterprises must readjust their grain buying and selling as changes in the market require. In addition, the state

must suitably lower tax rates as grain enterprises circumstances warrant. They must also make clear that all new assets belong to the enterprise so as to improve enterprise self-development capabilities.

Third, impelling enterprises toward markets is a goal. Attainment of this goal requires a transition period. Today, it is still fairly difficult to move grain enterprises toward markets. One reason is that fiscal subsidies carried on the books amount to more than 60 billion yuan, or about 20 percent of fiscal revenues. The fact is that grain enterprises depend on government subsidies for their survival. A second reason is that an overwhelming majority of grain enterprise grain purchases are made with bank loans. In 1990, bank loans accounted for 73.5 percent of working capital; 26.5 percent belonged to the enterprises themselves. If enterprises sold every bit of their grain, they would still not have enough to repay their loans and the interest owed on them. A third reason is that quite a few granaries, grain shops, and grain stations have become "empty shell granaries," and "empty shell shops." In Heilongjiang Province, for example, the current value of fixed assets is 1.8 billion yuan, but charges owing alone amount to 1.46 billion yuan. Were enterprises pushed into the markets all of a sudden, an overwhelming majority of them would go bankrupt. However, in places where markets have been decontrolled, people rarely buy grain in state-owned grain shops. The grain that state-owned grain shops carry is of inferior quality and frequently old. This increases the difficulty of state-owned grain shops in moving into markets. They want the state to continue along with them in its reform of market grain dealing. They do not want the state to cancel subsidies to state-owned grain enterprises at once. Instead they want gradual cancellation so that they can gradually increase their ability to conform to the market.

**b) Prevent the Formation of Monopoly Grain Dealings After State-Owned Grain Enterprises Are Impelled Toward Markets**

Once state-owned grain enterprises complete sever the umbilicus that ties them to the state through introduction of the share system, and enterprises become independent juridical entities responsible for their own decisions, responsible for their own profits and losses, responsible for limiting themselves, and responsible for their own development, they must truly enter the marketplace, and the existing enterprise organization must also be reformed. It is generally known that the grain system is a business that the state centrally controls to a high degree. Once enterprises have been moved toward markets, monopoly businesses may very well occur. Central government departments in charge of grain may want to set up a nationwide grain corporation with branch corporations in every province and municipality, and sub-branches in every county for the formation of a nationwide monopoly. The main harm that monopoly causes is not the excessive monopoly profits that the grain business gets, but its setting of monopoly prices, its prices being far higher than the market price, thereby

hurting both grain producers and consumers alike and benefitting only the grain businesses. Experience abroad shows that the reform method that meets market competition is to ensure that there are a certain number of mutually independent enterprises in the market to control partnerships among enterprises and the size of enterprises, and to encourage new enterprises to enter competition. Civilian commercial and material wholesale trading organs must be permitted to enter market competition, the special operating rights of various state-owned corporations cancelled. In a market without corporations enjoying special rights, every corporation is equal.

**Impelling Grain Consumers Toward the Market**

Reform of grain procurement and marketing has pushed toward markets processing enterprises, food and beverage businesses that use grain as their raw materials, and peasants in rural villages specializing in the growing of cash crops or other specialized peasants. Currently only two large groups, namely city and town residents, and the armed forces, remain who have not been moved in the direction of the market. This is also a major stumbling block in having the markets handle all grain dealings. Getting around this stumbling blocks requires an assessment of city and town resident's mental and economic tolerance, changing the grain subsidy for all the people to a goal subsidy.

**Shaanxi Governor Bai Qingcui on Rural Economic Problems**

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[Article by Bai Qingcui (4101 3237 2088): "Views on Several Current Rural Problems"]

[Text] Not long ago, Comrade Jiang Zemin made an important speech on agriculture, calling on all in the party to get awakened and to give effective emphasis to strengthening agriculture and enhancing the rural work. In the Report on the Work of the Government delivered at the first session of the Eighth National People's Congress, Comrade Li Peng further pointed out the importance of agriculture, pointing out that agriculture was the foundation for the stability and development of the national economy as a whole and that at no time should agriculture be neglected. In the recent years, China has achieved significant development in agriculture, but, at the same time, the problems that exist should not be overlooked. To contribute to the efforts to put into effect the principles contained in the instructions of the party center and the State Council and to effectively enhance the position of agriculture, I would like to express my views on several problems confronting the rural work at the present time.

**The Burden on the Peasants**

The problem of the excessive burden on the peasants has been discussed for several years. Although people at all

levels have made great efforts in this regard, the problem has not been satisfactorily solved—in view of the actual burden on the peasants at the present time. Aside from the problem resulting from the fact that because of defective land measurement taxes are sometimes abnormally heavy and sometimes abnormally light and that the approach to taxation is not entirely correct, resulting in a great deal of complaints from the peasants, there is also another prominent problem of an excessively heavy extra-tax burden. According to statistics, the state's taxes only account for a small part of the per capita overall burden on the peasantry. What the peasants strongly complain about are the various kinds of fund collections, levies, and appropriations carried out under different names. Some cadres working at the grassroots—in order to have outstanding performance—exceed the limits imposed by the level of economic development in their localities and go against the will of the masses in starting projects and in extending the scope of activities. A few organizations and localities have formulated "local policies" without proper authorization, asking the peasants for money through many channels, and proceeding—in a forcible manner—with projects which the masses would have carried out voluntarily in any case. Some administrative agencies and public institutions, after becoming entities, turn from previously charging no or low fees for services which were considered assistance to the peasants into charging fees higher than standard fees, in order to reap benefits for themselves. Some people have turned some taxes which are aimed at special targets and regions into general taxes, thereby conducting administrative appropriation. Too many newspapers and periodicals of too many kinds have imposed subscription quotas through various channels, thereby imposing burden on the peasants; meanwhile, the authors get paid and the distributors retain a certain portion of the revenues. An extremely small number of functionaries working at the grassroots are equipped with low personal quality and a weak policy consciousness, and will arbitrarily increase the relevant amounts while carrying out collection and retaining, thereby increasing the burden on the masses. There is a great deal of excessive and wasteful spending going on. A large part of the funds appropriated and retained by the townships and villages are spent on various commemorating, honoring, appraisal and competition, evaluation, reception and touring activities. If revenues cannot keep up with expenditures, those involved would begin thinking about getting the money from the peasants.

The main reason for the occurrence of such a situation has been the overestimation of how rich the peasants are and a lack of consideration of the peasants' carrying capacity. Many agencies and organizations can decide to collect fees. There exists neither a strong agency which can monitor and keep control over the situation regarding the burden on the peasants, nor an effective way of monitoring and keeping control over the situation. If the relevant problems are not quickly eliminated, the peasants' "blood and sweat money" will continue to get lost, withheld, or spent at the intermediate levels.

This will greatly threaten the further development of agriculture and the continuance of the excellent situation of stability and unity.

Another reason has been that the peasants' ability to make cash payments on a daily basis remains weak, or that—to use a vernacular term—they are "short on money." They are unlike the urban residents who receive monthly wages and thus would always have some cash in their pockets. Although they have grain in the storehouse, pigs in the pigsty, and sheep in the pen, it takes some time to turn those things into cash. If taxes and levies are collected too frequently and are too heavy, and if too little time is given, the burden on the peasants will be very heavy. Presently, some localities refuse to accept the grain which has been ordered earlier at contracted prices, while asking the peasants to pay money equaling the difference between the state-set price and the negotiated price. In some cases, peasants are made to pay—for services rendered through volunteer work—the sum equaling the wages that would have been paid to those delivering the services if they had not been volunteer work. Such practices are very wrong, and must be resolutely suppressed. It is necessary to educate the comrades working at the grassroots, making them understand that at present the degree of commercialization of the rural economy is still very low, that the amount of money in the hands of the peasants is very limited, that even the things needed to be accomplished would still have to be put into different categories in terms of their different degrees of urgency and importance, that efforts to accomplish those things have to be made on the basis of considerations of the capabilities, and that it is necessary not to directly collect money from the peasants if it is proper to accept goods and labor service as substitutes. Monetization of taxation is a long-range goal; but, it is necessary to consider the peasants' carrying capacity and adopt a gradual approach in relatively economically backward poverty-stricken regions. A small careless step can lead to consequences which can be the direct opposite of what has been desired, and as a result well-intentioned efforts can lead to bad consequences.

Historical experience reminds us that taking little but giving more and letting people have a rest is the fundamental way to ensure long-term stability in the country. Currently, as most peasants are still weak economically, trying as hard as possible not to increase—or to reduce the amount of increase in—the burden on the peasants should be our fundamental policy on the peasants. Therefore, the localities should take urgent actions; consider the protection of the peasants' interests and the reduction of burden on the peasants to be an important matter; put the matter on the agenda; pool resources; and adopt decisive measures to diminish as soon as possible all the unjust burdens placed on the peasants. It is necessary to widely publicize and enforce the Regulations on Fees Paid by Peasants and Peasants' Labor Service promulgated by the State Council; help peasants enhance their ability to resist the imposition of unjust

burden; review all documents involving burden on the peasants; and examine all projects based on the collecting of fees, levies, and funds. Those inappropriate projects should be cancelled. It is necessary to reduce the amount of fees collected in cases where peasants have to pay fees to more than one institution for the same thing. By doing all such work, make the large numbers of peasants truly realize that the consistent goal of the party and the government is to promote the interests of the people, and make them feel that the party policy of enriching the people, which has been followed since the Third Plenum, is visible and tangible, and not changeable. Only in this way would it be possible to warm the peasants' hearts and achieve stability in the important area of agriculture.

#### **On the Issue of Unequal Exchange Between Industrial and Agricultural Products**

The unequal exchange between industrial and agricultural products is another prominent problem that adversely affects the peasants' enthusiasm for production. For a long time, under the policy of unified purchase and requisition purchase of agricultural and sideline products, the peasants made great contributions to the state's effort to accumulate funds for industry and to improve the lives of urban residents. In order to gradually reduce and ultimately eliminate the "price scissors" related to industrial and agricultural products, the party and government have done a large amount of work. Since the Third Plenum of the 11th CPC Central Committee, several rounds of large increase in the purchase prices for agricultural and side-line products have been carried out. With the lifting of all controls on prices of agricultural and side-line products and the gradual formation of market-based pricing mechanisms, the role of state compulsion in such unequal exchange has been greatly reduced. Nevertheless, in the recent years, while the prices of industrial products have been continually raised, agricultural products—especially grain—have been relatively lagging behind in terms of the magnitude of the price rises that they have enjoyed. In the words of the peasants, this is a situation where "an industrial product has several prices in one year, while grain has one price in several years." As a result, the "price scissors" which had been reduced have been growing again. For instance, in Shaanxi, the index of state-purchase prices of agricultural and side-line products has been—on a cumulative basis—lower than the index of rural retail prices of industrial products by 21.7 percentage points in the past three years. The problem is actually even more serious, as there is also the phenomenon of "paying with white slips," and since the industrial products, which are supplied on the basis of the state's arrangements and at state-set prices, often fail to arrive in a timely fashion.

It is now particularly important and urgent to emphasize the need to solve the problem of unequal exchange between industrial and agricultural products. Today's peasants have certain degree of understanding of commodity economy. Equal exchange, fair competition, and

shaking off poverty and getting rich are their strong desires. Driven by an understanding of comparative benefits and by an enhanced sense of independence, more and more people have begun to leave the traditional crop-growing business and move to diversified operations which generate high output and high returns as well as to township enterprises. It is undeniable that such a change represents historic progress in the development of China's agriculture. However, during the process of this change, an increase in the production of such special commodities as grain and cotton which affect the national economy as a whole and people's lives may not necessarily lead to an increase in income, as such commodities entail large input, long production cycles, and low prices. The peasants' enthusiasm for farming and for growing grain and cotton is on the decline. The unwillingness to provide input, the unwillingness to carry out intensive farming, the unwillingness to return straw to the field, and the practice of even stopping farming the land have all been ways in which the peasants have expressed their discontent in a passive manner. Therefore, the issue involved in the current problem of unequal exchange between industrial and agricultural products is not only an issue of rectifying price relationships, but, even more importantly, an issue of protecting the peasants' enthusiasm. And, what is involved is also an important economic issue of whether the special commodity of grain can continue to be supplied in such a way as to keep a basic equilibrium between supply and demand and whether the peasants' income can be increased as soon as possible under the situation where farmland is being reduced every year while the population is growing rapidly, so that there can be a more vibrant market for industrial products. Equal exchange between industrial and agricultural products is the economic foundation for the political alliance between the workers and peasants, and the weakening of this foundation will result in shaking the foundation for the state power in the hands of the people. It is necessary to pay great attention to this issue and make serious efforts to resolve the issue.

The problem of unequal exchange between industrial and agricultural products involves the economic relations between many parties. It cannot be solved through simply raising the prices of agricultural products, but must be solved—on the basis of overall planning—gradually at different levels.

**First, enhance the regulation and control role of the state's policies.** It is necessary—on a conditional basis—retain and create the necessary means used for regulating and controlling prices, including establishing and perfecting the system of reserve funds for important commodities such as grain, edible oil, cotton, and pork, and the system of protected minimum prices for state-purchased grain, so as to prevent market prices from getting too low, for "low grain prices hurt the agricultural sector." Establish the system of grain-price regulation funds based on joint risks for both producer localities and consumer localities, in order to prevent the phenomenon of price fluctuations across bumper harvest and poor harvest years

adversely affecting the interests of the peasants and relevant organizations. At the same time, it is necessary to resolutely put into effect the policy of "three ties" regarding the purchase of agricultural and side-line products; ensure that purchase funds for agricultural and side-line products are fully provided in a timely manner; and eliminate the phenomenon of "paying with white slips." It is necessary to step up the work of formulating specific methods used for conducting guidance and management after lifting the control on prices of industrial and agricultural products; perfect the system of price regulation and control and the constraining mechanisms which function in the process of exchanges between industrial and agricultural products; and enhance price monitoring in order to prevent peasants suffering from price-related discrimination and fraud.

**Second, provide generous help to peasants, especially the peasants in the economically backward regions, in their efforts to extensively develop the processing of agricultural and side-line products.** In addition to continuing to help the rural township enterprises engaged in processing agricultural and side-line products in their efforts to introduce advanced technologies, improve technological standards, give emphasis to packaging, and increase the added value involved in the goods, it is also necessary to encourage peasants to directly engage in the prior processing and advanced processing of grain, cotton, oil-bearing products, tobacco, silkworm cocoons, fruits, poultry, and other animal products. Make sure that the operations that peasants are capable of undertaking are—as much as possible—carried out by the peasants in the rural areas, so that the peasants can gain the largest possible benefits.

**Third, give play to regulating the role of market mechanisms.** It is necessary to encourage the peasants to form crop-growing plans on the basis of market demand, and encourage peasants to enter the circulation arena in various ways. Government agencies should actively render various social services provided for peasants, such as those relating to market forecasts, price information, technology guidance, acquiring funds, spreading the use of improved varieties, and marketing products, and provide guidance for peasants in their effort to adjust the industrial structure so as to develop diversified operations while stabilizing grain production, thereby increasing the peasant's income. Accelerate the reform of the system of purchase and marketing of agricultural products. The state should continue to provide the necessary funds for accelerating the construction of rural markets, and direct and induce peasants to participate in the process of circulation of various agricultural products—especially futures trading. The grain-purchasing and -marketing departments should focus on forming long-term, stable relations of cooperation with peasant households, and on preventing large price fluctuations. The price departments should carefully study the new situations and new problems regarding the ratio of the prices of industrial products to the prices of agricultural products, and strive to rectify the price relationships at an early date.

**Fourth, vigorously improve agricultural labor productivity.** Governments at the various levels should all increase investment in agricultural capital construction each year, accelerate the work of harnessing large rivers and constructing farmland infrastructure, increasing the agricultural sector's comprehensive productive capacity and disaster-preventing and -resisting capabilities, and enhance the foundation for stable-yield and high-yield agricultural production. Increase input in the area of agricultural science and technology, and accelerate the process of achieving widespread application of research results relating to agricultural science and technology, so that the high yield in agriculture can be based on high quality and efficiency. Only in this way would it be possible to gradually raise agricultural labor productivity.

#### **Developing the System of Socially Provided Rural Service**

With the establishment of the rural output-linked contracted responsibility system, and with the rise in the levels of specialization, commercialization, and social involvement of agricultural production, the degree of dependence of agricultural production on socially provided services is gradually increasing. Peasant households and other economic organizations are raising an increasingly urgent demand that the various sectors of society provide them with all-dimensional services. Because of the need to satisfy this demand, the work on developing the system of socially provided rural service has become an important item on the agenda in terms of the effort to strengthen agriculture and enhance the rural work.

In Shaanxi, in recent years some progress has been made in developing the system of socially provided rural service. The present situation is very different from the situation a few years ago where the service system was characterized by "broken nets, severed lines, and the fact the people involved have left." In some relatively economically developed regions, preproduction and production services are rather effective, and can largely satisfy the needs of the development of production. The problem lies in the fact that postproduction services are lagging behind: First, services related to the circulation of agricultural and side-line products are lagging behind, and the problem of "having difficulty selling" occurs from time to time. Second, advanced processing is lagging behind, and the peasants are suffering from the serious diluting of their benefits. In the economically underdeveloped and remote mountainous regions, the service system is not being developed vigorously. On the whole, the service system is characterized by the absence of a real network, the fact that not all the necessary functions are being performed, the fact that the system covers too small an area, low ability to produce effects, and low service quality.

Village-level administrative and economic organizations are weak, and are unable to effectively organize service operations. Since the implementation of the household

contracting system, some cadres have been busy minding their own production operations, and think and care less about collective matters. A substantial number of administrative villages do not have collective economic organizations. Those organizations that exist are equipped with limited accumulation, and are thus very weak. According to statistics, 70 percent of the administrative villages in Shaanxi are now having almost no collective accumulation, and are thus "empty-shell villages" economically. As collective economic capabilities are weak, everything has to depend on collecting money from the masses, while no services are provided; as a result, the relations between the cadres and the masses are tense.

The agriculture-related administrative agencies and institutions especially, under the county- and township-level governments, have not entirely entered the main battle field of rural commodity economy, as progress in transforming their functions is not fast enough. It is inevitable that the agriculture-related agencies and institutions will become service entities. The fundamental goals of the work of transforming the functions of all agriculture-related administrative agencies and institutions are to develop the rural service system, through making those agencies and institutions work to induce peasants to form—spontaneously—cooperative service organizations and to expand their operations in all areas of production, and through enabling those agencies and institutions to provide coordinated quality services. However, now those agencies and institutions do not have a resolute attitude, are advancing in an uneven manner, and have failed to achieve prominent results in the process of transformation of their functions. Many are still handling only administrative matters as they did before, and are in most cases only reacting passively, while rarely taking the initiative in advancing. The operating procedures are seriously inadequate in terms of meeting the needs of the development of rural commodity economy, resulting in a failure to satisfy the growing demand of the masses of peasants for services. On the other hand, the phenomenon of providing "services" which are in the nature of administrative intervention is rather widespread, and this is against the wishes of the peasants. Some government agencies and service organizations—in the name of providing "services"—carry out administrative intervention and issuing arbitrary commands.

#### How to enhance the development of the system of socially provided rural service?

**First, accelerate the comprehensive reform of the county- and township-level systems, and enhance the service function of government agencies.**

It is necessary to actively consult and extensively apply the successful practices of such counties and cities as Xianxian, Shanxi, and Changyi, Shandong. Turn entire agriculture-related government agencies and some specialized economic agencies of government into economic entities or service organizations, so that these entities

and peasant households as well as rural collective economic organizations can form interest communities based on close ties between themselves. Form a comprehensive service system in which county-level establishments are the leaders, in which the township-level establishments are the main actors, which is based on village- and group-level establishments, and in which the specialized households provide supplementary services. It is necessary to weaken the administrative function that those entities previously performed as government agencies, and enhance their economic function in terms of providing services for the rural economy.

**Second, perfect the two-tier management system, and enhance the rural economic organizations' capabilities to provide services for the peasants.** The services provided by rural economic organizations to each other are the foundation for the entire system of socially provided service. It is necessary to give play to their role in mutually providing services relating to some key phases of agricultural production such as adjusting crop distribution, the construction and management of farmland irrigation facilities, the prevention and treatment of crop diseases and pest infestation, and the promotion of circulation of agricultural products. In order to enhance the collective economic organizations' service function, it is necessary to increase collective accumulation, through establishing large township enterprises and through developing diversified operations, and to push them to integrate production, business operation, and service.

**Third, give play to the role of market mechanisms, and provide guidance in order to make sure that socially provided services come to be rendered through multiple channels, and get upgraded.** It is necessary to adhere to the idea of being guided by the market. Whatever services needed by the peasants in their production and operations are to be provided. Presently, in view of the widespread situation where there are mostly single-item services but not enough comprehensive services, where there are mostly low-grade services but not enough high-grade services, and where services are mostly for the production phase but not for operations integrating production, supply, and marketing, it is necessary to develop high-grade, comprehensive, and serialized services as well as the organizations providing such services. Especially, it is necessary to focus on developing service organizations engaged in circulation work, so as to resolve the buying and selling difficulties in the rural areas.

**Fourth, encourage peasants to establish service organizations of various types, and fully develop and prefect the system of socially provided service.** While continuing to push the agencies engaged in the work on agricultural economy and technology in governments of the various levels to provide services for agricultural production, it is necessary to adopt preferential policies on funds, materials, and taxation, so as to help peasants—individually or jointly—and collective economic organizations, establish service-providing economic entities of

various types, thereby expanding the service work, perfecting the service system, and contributing to making all the needed services available.

#### The Development of Rural Grassroots Organizations

Since the start of the reform and opening to the outside world, the quality of the rural grassroots organizations and cadres in China has been improved, but development has been uneven. There are large gaps between different regions and different periods. In Shaanxi, in the villages where rural commodity economy has developed fast, where collective economic capabilities are strong, and where peasant incomes are high, the grassroots organizations are generally in a good state and the relations between the party and the masses and between the cadres and the masses are rather harmonious; in places where the situation is the opposite, the organizations are at a state which is not as good.

Rural grassroots organizations are the nerve ends of state power. As they directly deal with the masses of peasants, ordinary people tend to view them as representatives of the party and government. What they say and do will directly affect the party's and the government's prestige and image in terms of how the party and government are viewed by the masses. Presently, some ordinary people have various complaints against the party and government. The key reason for this situation is that some in the grassroots organs of state power have violated the party's policies, thereby harming the interests of the masses and hurting the feelings of the masses. Therefore, efforts must be made—without delay—to tackle the issue of the development of rural grassroots organizations and the issue of the quality of cadres in those organizations, and the issues must be resolved successfully.

The work on enhancing the development of rural grassroots organizations involves many things. In view of the problems in existence at present, I believe that it is necessary to do a good job in the following several areas: First, it is necessary to enhance the ideological and political work centered on fostering the party spirit, so as to enhance the willingness—of the members of the rural grassroots organizations—to serve the people wholeheartedly, and to improve the political quality of those members in relation to being able to effectively implementing the party's policies. Second, establish a cadre management system which is conducive to selecting good people and appointing capable people to offices. It is necessary to change the present practice of the state handling the job assignment for, and appointment and dismissal of, all township-level cadres. Accelerate the process of introducing the hiring-through-invitation system and the contracting system. It is preferable that leading cadres, especially village and group cadres, are directly elected by people's deputies, or by the conference of villagers and the conference of party members. Third, establish a fully developed system of direct monitoring. Use the system of periodical evaluation for monitoring the work of the various agencies of township governments, conducting evaluations regarding such

things as acting in accordance with policies, laws and regulations, professional ethics, professional conduct, and performance. Those who have failed to win a confidence vote for the second time are to be dismissed immediately or transferred. Establish the system of ordinary people's monitoring groups and the system of deliberation by representatives of villagers, so as to broaden the channels through which the masses of peasants can participate in social and economic management and supervise the cadres. Fourth, rectify the system, and perfect the operating mechanisms of township-level organs of state power and village-level organizations. It is necessary to adopt the practice of dual leadership in managing the branch organizations in townships which are vertically related to higher-level organizations. Operational matters are to be handled mainly through vertical channels; and matters of the party and government and personnel matters are to be handled mainly through horizontal channels. Village-level leadership groups and organizations of various types should each have their own allotted authorities and power, so as to clarify the respective responsibilities of those involved, and the relationships between those involved. The party branches should fully play their role as the "left and right arms" of other organizations. It is especially necessary to solve the problem of prolonged paralysis of grassroots self-government organizations, so as to make those organizations play their due role. At the same time, establish and perfect standardized democratic decision-making procedures, so as to prevent the phenomenon of one person making arbitrary decisions. Fifth, strictly enforce the disciplines of the party and laws, making sure that all those violating laws and disciplines are held responsible, and that laws and disciplines are enforced strictly. (Originally published in the August 1993 issue of the journal QIUSHI.)

#### State Council Research Group Views Rural Labor Movement

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[Article by Mo Rong (5459 2837) of the Interregional Rural Labor Movement Research Group: "Contributions, Problems of Rural Labor Movement"]

[Text] Interregional rural labor movement refers to the inter-county and inter-provincial movement of rural labor in search of work. This issue has attracted growing social concern since the mid-1980's as the size of such movement steadily increased. It can be examined from different perspectives, including demographics, sociology, and economics. This study proceeds mainly from the perspective of labor economics, analyzes the operating mechanism of rural labor movement, with special emphasis on the market mechanism, and suggests some responses that labor departments may use for reference purposes.

The history of economic development in nations around the world shows that the migration of rural labor from the primary sector to the secondary and tertiary sectors is an irreversible historical trend. China began experiencing this trend since the 1980's, with rural and urban economic restructuring proceeding apace and the market mechanism playing a steadily expanding role. Since the mid-1980's, interregional rural labor movement has hit a peak, with most of the workers going to cities and economically developed areas. This, in fact, has become the main characteristic of rural labor movement. This article is based on data on the in-migration and out-migration of rural labor in six provinces or municipalities, namely Sichuan, Gansu, Henan, Hunan, Beijing, and Guangdong. These six provinces and municipalities account for much of the interregional rural labor movement in China, so their experiences are highly representative. Statistics cited in this article were provided by local labor departments. However, rural labor movement is highly unorganized; only 30 percent or so of outward migration is organized, the remaining 70 percent being spontaneous. Since accurate data on the latter group is hard to come by, the overall magnitude of the movement cannot be measured with precision.

#### **1. Causes and Characteristics of Interregional Rural Labor Movement**

There are two sets of reasons for the interregional movement of rural labor to cities and developed areas. On the one hand, farmland can no longer provide jobs for a growing labor force. There are currently 1.4 billion mu of farmland in China with a rural labor force of 430 million people. In the early days of liberation, there were 10 mu of farmland for each person. Using that as a standard, we now have enough rural land to accommodate just about 160 million rural workers. The remaining 270 million constitute zero-value labor as far as agriculture is concerned. Their inputs do nothing to increase agricultural output; on the contrary, they decrease per capita output. Township and town enterprises have absorbed 100 million workers and diversified operations, about 30 million. Add the 20 million rural workers who have joined the ranks of the interregionally mobile and we still have 120 million surplus workers in the countryside today. On the other hand, the superior living conditions in urban areas are enormously attractive to the rural laborers, as is the fact that the wage level in urban areas is far higher than its rural counterpart. Take Hunan, for instance. According to calculations, a peasant who plants a mu of wheat can expect to make a little over 100 yuan, while a Hunan laborer working on a public project in Guangdong earns 500 yuan per month, which is not considered high. Herein lies the driving force behind the booming interregional rural labor movement in recent years.

In the past, administrative fiat and a strict permanent residence registration system were used to confine rural labor to the countryside. After reform and the open policy were underway, particularly since 1984, peasants were allowed to enter a city with their grain ration to

work or engage in industry and commerce, thus blurring the boundaries between town and country and between different regions. Meanwhile, the development of township and town enterprises in developed areas exhausted the local labor supply, giving rise to an urgent demand for workers from outside. Working together, this host of reasons has caused the upsurge in interregional rural labor movement.

At present, interregional rural labor movement has these characteristics:

- 1) Market mechanism as the principal regulator of rural labor movement. Since the 1980's, interregional rural labor movement has consistently been the result of regulation by the labor market mechanism. This is the essential characteristic of rural labor movement in the present stage, a fact borne out by its direction and volume and is equally applicable to the movement organized by intermediate groups and the movement of those workers who go to another place in search of work on their own.

Most labor-exporting areas are economically underdeveloped areas long on manpower but short on natural resources. Job opportunities there are scarce while rural workers are plentiful. With their vast over-supply of labor, these places naturally become the originating points of the army of rural migrants. Nationwide, much of the rural labor movement originates in the provinces of Sichuan, Henan, Gansu, Anhui, Hunan, Guangxi, and Hebei. Of these provinces, Sichuan is the most populous province in China, followed by Henan. Both are economically underdeveloped, as are the other provinces with their ample labor and a dire shortage of job opportunities. In Sichuan, the inter-regionally mobile rural population consists of 1.8 million people. Corresponding figures for Henan, Gansu, and Hunan are 2 million, 1.2 million, and 900,000, respectively. Within Sichuan Province, most rural labor-exporting areas are densely populated. The Sichuan basin, the plains, and the hill country make up 47 percent of the province in area but account for 95 percent of its population, or a little over 100 million. Most rural migrants, over 80 percent, originate in those areas. Economically developed areas, on the other hand, have ample job opportunities and offer handsome wages, which naturally make them the destinations of rural migrants. Coastal provinces like Guangdong are the economically developed part of China. Guangdong Province alone has absorbed 4 million rural workers from other provinces. As China's political, cultural, and economic center, Beijing currently provides jobs for 1 million rural workers distributed across a range of trades and professions. Of the rural laborers who left Sichuan for other provinces in search of work in 1990, about one-third, between 200,000 and 300,000, went to Guangdong Province. Within Sichuan Province, of the 571 rural laborers in Shehong County who left the province in an organized way in 1990, 379, or 66 percent, went to Fujian and Shanghai to look for work. Of the 133 rural workers in Shehong County who moved to other parts of the province, all ended up in economically developed Chengdu. Some places in the interior which are sparsely

populated and have a labor shortage, such as Xinjiang and Inner Mongolia where population density is below 20 per square kilometer (national average: 120 people per square kilometer), have also become labor-importing areas. Climatically, Xinjiang is suited for the cultivation of a range of fruits but has long suffered from a labor shortage. In recent years, rural laborers from Gansu, Sichuan, and Henan have been arriving in Xinjiang in droves to engage in the production of agricultural byproducts.

2) Participants in interregional rural labor movement are usually skilled in a particular line of work and better educated. According to a 1987 analytical study conducted by Suining Shi in Sichuan Province on the city's 112,000 rural workers involved in interregional movement, 88 percent of them boasted a certain skill and over 50 percent had had a junior high education. During the same period, 14.9 percent of all rural laborers in Suining were skilled and 22.3 percent have had an education above the junior high level. According to sample surveys by the Economic Research Center under the State Planning Commission, 44.2 percent of non-native workers have finished junior high, compared to 11 percent among native workers. The bulk of rural laborers who leave economically developed areas for economically underdeveloped areas are craftsmen and other highly economically minded workers. They leave for the interior because the interior market appears promising and they could make more money there.

3) Among enterprises that have hired rural laborers, most are nonstate enterprises. The principal cause of the large-scale interregional movement of rural labor is economic development, particularly the development of the nonstate sector, which has caused local labor shortages in recent years, making it necessary for nonstate enterprises to recruit workers from outside to keep up with the demand of production. Nonstate enterprises are the principal employers of nonlocal labor. According to statistics compiled by Foshan Shi in Guangdong, only 3.1 percent of out-of-town labor find work with state enterprises while 96.9 percent join all sorts of collective enterprises, township and town enterprises, the three kinds of enterprises that are either wholly or partially foreign-owned, private enterprises, and individual commercial and industrial enterprises. Some enter agriculture to work the land. Of all rural workers from out of town, 63 percent join township and town enterprises.

Of those rural laborers who join state enterprises, most find work in mines opened for rural labor under state policy and other hard, filthy, and hazardous operations shunned by urban workers. At present 1 million peasants are working in mines on a shift basis nationwide, 5 percent of all rural laborers who are part of the interregional movement.

This finding conforms with the characteristic of rural labor movement, namely its dependence on the market mechanism. As we all know, the labor market first took

shape at the market demand end among nonstate enterprises whose principal consideration in hiring is labor costs. They are a perfect match for the interregionally mobile rural labor force.

4) Rural labor movement is highly supplementary. There are two kinds of interregionally mobile rural workers: replacers and supplementers. The former refers to those who replace local workers of a comparable caliber and willing to do the same kind of work. The latter refers to workers who fill the gap in the local labor supply quantitatively and qualitatively.

In cities construction and mining are the lines of work that have difficulty recruiting laborers. Workers in cities and economically developed areas usually balk at entering those fields. The resultant shortfall is filled by rural workers. Of the workers "exported" by Gansu in 1991, 757,000, or 63 percent of total out-migrants, entered the building, building materials, and mining industries. Of the 420,000 rural workers from Sichuan whose export was directly organized by labor departments between 1987 and the first half of 1992, 57 percent are in the construction industry.

As it pushes to develop an export-oriented processing industry, Guangdong has seen a proliferation of the three kinds of enterprises that are either wholly or partially foreign-owned, as well as processing enterprises and companies engaged in compensation trade. The result is a huge demand for female workers. Since the demand cannot be met locally, it has to rely on interregional rural labor movement to fill the void. Of all Sichuan workers who have found their way to Guangdong, 90 percent are women. Most of the workers from Hunan, Henan, Gansu, and Guangxi who have "migrated" to Guangdong are also women. Of all nonlocal workers in Foshan, 56 percent are women. Women make up 68 percent of out-of-town workers in Dongguan Shi and 70 percent of the 110,000 non-local workers in Huidong County.

Most of the rural workers from Zhejiang and Jiangsu who go to Beijing, Sichuan, and Guizhou find employment in shoe-repair, a line of work shunned by locals, and as tailors, barbers, and cooks, trades in which there is a dearth of local talent. They also fill a gap in the local pool of managerial personnel.

5) Rural labor movement is becoming more and more organized. In the mid-and late 1980's, interregional rural labor movement was primarily spontaneous. Since then it has become progressively more organized. Of the 1.8 million rural workers "exported" by Sichuan in 1990, the migration of about 500,000 people, 28 percent of the total, was arranged by labor departments or as part of a project under contract. Statistics on Gansu also show that of the 1.2 million rural workers who left the province in 1990, 480,000, or 40 percent, departed in an organized way. Of the 1.2 million rural workers who left Gansu in 1991, the departure of 520,000, or 43 percent, was organized, up three percentage points over the

preceding year. Of the rural workers who left Guizhou in 1990, 29 percent departed for other provinces on an organized basis.

Labor-importing areas have incorporated the management of rural labor into urban-rural planning. Beijing, for instance, has introduced target control for rural migrants and requires an employer to enter into a contract with its employees and institute hiring procedures. It also has initiated worker supervision, cracked down on the illegal labor market, and included rural labor in the city's job placement system. Guangdong has set up township and town labor management bureaus in 85 percent of the townships across the province. It has also created an outside labor management office in conjunction with the public security agency to manage rural labor that has found its way into Guangdong. It has introduced contract management for out-of-province labor and seeks to protect the legitimate rights and interests of both enterprises and workers in accordance with the labor contract. Even as labor departments are put in charge of examination and approval, management is also being individualized.

Interregional rural labor movement has broken down the closed regional labor management system and opened up the treasure trove of rural manpower resources. By linking labor supply with demand on a national scale, it has created the necessary conditions for forming a macroeconomic market. As the socialist market economy develops and becomes stronger, rural labor movement will only grow in momentum and more and more people will join the migration which will have a broader and broader geographical reach. For that we must be fully prepared psychologically.

## 2. Understanding the Socioeconomic Significance of Interregional Rural Labor Movement

How should interregional rural labor movement be evaluated? In our opinion, we should focus on the mainstream and ask these questions: Does the movement of rural labor help promote urban-rural economic development? Does it help solve rural unemployment and boost peasants' incomes level? Judging from existing data, the contributions of interregional rural labor movement are remarkable. We can get a deeper understanding of the contributions of interregional rural labor movement by examining the following aspects.

First, it has eased local employment pressures and helped develop and perfect self-employment as a job creation mechanism. In 1990, Sichuan had 16 million surplus rural workers. In the same year, it exported 1.8 million rural workers, about 11 percent of all surplus rural workers in Sichuan. Using the same method of calculation, we find that in 1990 interregional rural migrants accounted for 13 percent of all surplus rural workers in Henan, 40 percent in Gansu, and 9 percent in Hunan. Yongdeng County in Gansu Province is a large county with an agricultural population of 410,000, including 100,000 surplus rural workers. In 1990, it

"exported" 100,000 workers. To put it differently labor export has solved the county's unemployment problem among surplus rural workers. Although the experience of this county is not typical, generally speaking interregional rural labor movement has moderated employment pressure in rural areas.

Second, it has helped peasant households and even entire villages shake off poverty and become rich quickly. Suppose each mobile rural worker makes 100 to 200 yuan a month. After deducting living expenses he can then remit about 1,000 yuan per year to his family. In addition, his absence can save his family 500 jin of rice. Again assume there are four people in the household, which means that each person would be 300 yuan or so richer. "Export one person, and you have one fewer impoverished household." In 1991, 3,600 households consisting of 19,000 people in Yongdeng County in Gansu pulled themselves up from poverty. Of these 3,600 households, one-third were able to emerge from poverty because of labor export. In 1990 and 1991 alone, as many as 230,000 households comprising 1.4 million people in 46 impoverished or arid counties in Gansu shook off poverty because of labor export, accounting for 50 percent and 46 percent of the targets in the province's anti-poverty programs for the two years, respectively. By late 1990, 2,431 rural workers from Sansui County in Guizhou had left for Guangdong. With a combined annual income of 4.86 million yuan, the workers remit 2.43 million yuan to their hometown, equivalent to one-third of the county's revenue. There are 20 million participants in interregional rural labor movement nationwide. If each worker remits 1,000 yuan home each year, he and other participants in the rural labor migration would enrich labor-exporting areas by 20 billion yuan each year.

Third, the goal of "educating one's people elsewhere" has been achieved. Without spending a penny, labor-exporting areas have managed to greatly improve the technical quality of local rural workers as well as their consciousness of the commodity economy. This is profoundly important for undeveloped areas. Of the 2,431 workers from Sansui County, Guizhou Province, who are now working in Guangdong, 124 became foremen (equivalent to workshop chiefs) or key technical workers by 1990.

Fourth, rural labor movement has energized the development of township and town enterprises. For a majority of areas and most peasants, interregional movement is not the goal but an expedient. The bulk of them do go home after a few years. The funds they have earned and the technology and managerial experience they have acquired become the basic conditions for developing local township and town enterprises. Their role in local peasant employment is that of "yeast" or "growth nucleus." Chucun Village in Mengcheng County, Anhui Province, exports 1,000 workers each year and receives 1 million yuan in incomes, which are used to finance the beginnings of a rural collective economy. In recent years,

villages have been investing their migrant workers' hard-earned money in township and town enterprises, building bean thread factories, soy sauce factories, building materials plants, construction teams, and transportation teams, thereby laying the foundation for the development of township and town enterprises. According to incomplete data compiled by the labor export office of Gansu Province, its workers so far have spent a total of 250 million yuan in earnings to build 36,000 township and town enterprises and assorted economic entities, providing jobs for 255,000 rural workers on the spot. This represents a departure from the traditional practice of spending one's hard-earned income on building a house and getting married. What has been created now is a mechanism for converting consumption income into production.

Fifth, it has increased investment in agriculture and public welfare undertakings in the countryside. In Mengcheng County, Anhui Province, labor export generates 90 million yuan in revenue each year, much of it subsequently invested in agriculture. Peasants use the incomes derived from labor export to purchase pesticides, chemical fertilizers, improved varieties, and machinery, making possible solid gains in agricultural output. Statistics by the labor export work office of Gansu Province also show that province-wide 1.54 billion yuan in labor export earnings was spent in a period of six years to purchase agricultural machinery, improved seeds, chemical fertilizers, pesticides, and plastic film. Investment in agricultural production development has been going up year after year proportionally, from 19.5 percent in 1986 to 32.1 percent in 1991. In addition, the province has invested 200 million yuan in the improvement of collective public welfare and educational projects, 47 percent of all revenue generated by labor export.

Sixth, participants in the interregional rural labor movement have made great contributions to cities and developed areas, expediting the development of the places where they find work. The most typical example is the Shenzhen Special Economic Zone in Guangdong. Of the city's total population of 2.38 million, 1.18 million are transient workers. That is why the local people say that without peasant workers, there would be no Shenzhen rate of growth.

The urban-rural and interregional cultural exchanges resulting from rural labor movement also have profound social significance. The mingling of the two cultures has stimulated social progress and accelerated rural transformation, thereby narrowing the urban-rural gap. According to studies conducted by the labor bureau of Sansui County, Guizhou Province, labor export has notably weakened such traditional phenomena of early marriage, early parenthood, multiple pregnancies, and having several children. Women now would rather go elsewhere to work to make money than get married at an early age. Women who have come back after a stint of working outside do not want to have too many children

either. Hedian Village in Wuwei County, Anhui Province, is known as the nannies' village. Of the 600 young women who went to Beijing to work as nannies, none married early. In fact, a majority got married at about 23 years of age, the late marriage age in cities.

Interregional rural labor movement no doubt has also been instrumental in promoting urban economic development, forming a new employment mechanism, and spurring the development of the socialist market economy. The 20 million peasants who enter the cities at their own expense create wealth for the cities and other economically developed areas and pay all sorts of taxes and fees. Interregional rural migrants not only rely on their own two hands to create wealth, but have also developed the tertiary industry in cities, filled the labor gap in the secondary industry and some trades which have had difficulty attracting workers, and promoted the development of the urban economy. In Beijing, just about every vendor in the agricultural market is a peasant, peasants account for over 50 percent of the workers in individually owned restaurants, and peasants also make up the bulk of the contingent of workers in the building industry. Peasant workers constitute 50 percent of the entire population in the Shenzhen SEZ. Interregional rural labor movement, it can be said, has helped bring about the urban and rural economic boom, enabled rural workers to embark on the road to prosperity through hard work, and created self-employment as a job creation mechanism. Interregional rural labor movement is both a hallmark of socioeconomic progress and an irreversible historical trend.

### 3. Conflicts and Problems Laid Bare by Interregional Rural Labor Movement

1) When the magnitude of the movement becomes excessive, it may cause an imbalance in total labor supply and demand. At present there are still 120 million surplus workers in the countryside desperately waiting for employment. Joining them are another 10 to 15 million surplus workers and over 3 million unemployed people in the townships. Township and town enterprises can absorb about 4 million rural workers a year. Economically developed areas such as the coastal region have already absorbed an immense number of workers from outside in recent years and filled most of their vacancies. This means that they will not be in a position to hire rural workers in large numbers. Interregional rural labor movement therefore takes place at a time when the ranks of surplus rural workers continue to swell while the second and tertiary industries in cities as well as township and town enterprises have limited capacity to absorb many more workers. At the same time, the widening earnings gap between urban and rural areas and between different regions and the fact that workers who leave town to work elsewhere can make more money continue to boost the ranks of rural migrants. When rural labor movement over-expands and reaches an excessive scale, it will not only mean economic losses for the migrant himself, but will also disrupt normal urban production and urban life. The annual explosion of

workers working on public projects since 1989 shows that each year there are about 1 million rural workers who move blindly from one province to the next, throwing the mobile labor market into a state of extreme imbalance. This problem will not go away anytime soon.

2) The information system of the labor market as well as its service tools are less than perfect. As a result, rural labor movement is highly haphazard and can easily get out of hand, leading to much unnecessary waste. Right now China's labor market is still in an embryonic stage. The urban labor market and rural labor market are separate from each other, the development of the urban labor market lags behind that of its rural counterpart, and there is no effective means of communication between labor markets in different provinces. All these problems have impeded the flow of information across the urban-rural divide and from one region to another, making rural labor movement even more haphazard. When they hear a rumor, rural workers pour into a locality in search of work.

3) The caliber of interregional rural migrants does not meet the demands of modern production enterprises. According to statistics, of all rural laborers in 1990, 7.57 percent had a senior high school education; 32.4 percent, junior high; 38.86 percent, elementary school; and 27.8 percent, illiterate. These workers characteristically can bear hardships and stand hard work, even filthy and hazardous work. Physically they are also stronger than most people, which explains their outstanding work performance and ability to adapt quickly to working on construction sites and in mines and pits. However, they take longer to adjust to production in modernized enterprises.

4) Because of imperfections in the legal system and lapses in management, both employers and workers behave in a way injurious to the interests of the other party. Enterprises complain that job-hopping is a serious problem among key technical workers, affecting enterprises' normal production. On the other hand, to hold down workers' wages, some Shenzhen enterprises often hire new workers or apprentices and pay them low wages during their three-month trial period. When the trial period is over, they let most of them go and recruit a new batch of apprentices or workers. There are endless disputes involving overtime work in enterprises and individually owned industrial and commercial households. Transient rural workers also face safety and health care problems as well as medical insurance problems. To control their employees, some enterprises resort to delaying the issue of wages or withholding wages. In a number of enterprises the personal safety of females is a problem.

5) Because of imbalances in the level of economic development between the city and the countryside and between one region and the next, barriers to circulation have been put up even as the mass of rural migrants pour into a few select areas. Rural labor movement is highly market-oriented; people go where there is work, where they can make a living. With their fast rate of economic growth, the economically developed areas along the coast provide more jobs for rural workers and pay better wages than most places in the

interior, which makes them the haven rural workers dream about even though sparsely populated localities like Xinjiang have begun opening their doors to rural migrants. For cities, the presence of hundreds of thousands, as many as a million, peasants milling about in their midst imposes additional social costs and exacerbates pressures on the urban transportation system, food supply, and housing. Local governments waste no time in taking "protective measures," often exaggerating the culpability of rural labor movement when they deal with the unemployment problem. Some have adopted a number of "exclusion" policies, such as the "three firsts" policy, to protect municipal and local interests: "first the city, then the countryside; first locals, then people from out of town; first the province, then other provinces." This has hampered the proper circulation of rural labor to a certain extent.

#### **4. Managing Interregional Rural Labor Movement: Ideas and Strategies**

The basic philosophy behind this report is this: Fully utilize the market mechanism and encourage peasants to find jobs on their own. Having done that, we should then step up information services, coordination, rule-making, and macroeconomic regulation and control so as to further what is good and eliminate what is bad and promote comprehensive urban and rural employment planning.

1) Make the most of the market mechanism, endorse the drive of rural workers to take the initiative to start their own businesses, and channel the drive to the locality. The state should fully utilize the initiative of rural laborers in starting their own businesses and, guided by industrial and local planning, abolish policies that do not make sense and give the countryside a range of preferential tax and other policies so that rural workers can find jobs locally and expedite the development of small towns. Price reform must conform with the laws of the market. Don't set prices artificially or form price scissors that work against the interests of rural labor. After ending the various unjustifiable phenomena, utilize the economic lever to give rural labor a number of visible benefits. That will help local labor find work where it is.

2) Strengthen coordination and the flow of information between the labor markets of different regions and provide a range of effective services for interregional rural labor movement. Of all rural workers on the move from region to region, 70 percent are still spontaneous without any effective guidance. Lacking supply-demand information, they migrate in a hit-and-miss fashion and tend to linger in a city for a longer period of time. They are the source of the "wave of workers working on public projects." Labor-exporting and labor-importing areas should increase cooperation, especially the exchange and dissemination of information, to guide both the direction and the volume of rural labor movement, and form a mechanism which would regularly send employment information from labor-importing areas to labor-exporting areas.

Besides organizing rural labor movement, carrying out interregional coordination and supplying information, other rural-labor-movement-related services include vocational and technical training. Providing vocational and technical training in the countryside is enormously significant for solving rural unemployment. When all is said and done, solving the rural unemployment problem requires tens of millions of peasants to profoundly change their identity. In other words, they will cease to be peasants as traditionally defined, that is, people who are only good at tilling the land and growing crops, and become multi-function peasants who combine agriculture with industry and commerce. It is here that vocational and technical training in the countryside can contribute to the transformation of peasants' identity. According to studies by the labor bureau in Guanghan Shi, Sichuan Province, of the 27,665 rural workers it trained in 1991, 75 percent were subsequently hired by the nonagricultural sector. Another study by the labor work office of Ning County in Gansu Province also shows that of the 1,443 rural workers trained in 1991, 95.7 percent were able to move out of agriculture later. We must begin pushing for the integration of secondary education with vocational education immediately, with emphasis on intensifying industrial and commercial skills training.

3) Lay down the market rules for interregional rural labor movement. Take a two-pronged approach toward this task. At one end are the labor-exporting areas. Guided by their labor departments, these areas should encourage rural laborers to migrate when there is a labor shortage in cities and economically developed areas and educate and dissuade them from leaving when there is a labor glut, even to the extent of using administrative measures to prohibit them from migrating. At the other end are labor-importing areas. Once workers are hired, a labor contract should be signed at once and the worker issued a "work permit" or "labor handbook." This documents should be an important part of contractual management between enterprises and workers. The more unified and developed a market, the more vitalized it will be and the more imperative that we continue to use it.

4) Establish a macroeconomic regulatory and control system for interregional rural labor movement to guide such movement effectively and safeguard the interests of both enterprises and workers. The purpose of a macroeconomic regulatory and control system is to realize comprehensive urban and rural planning. It must include the necessary legislation, management, and supervision, as well as policy and economic guidance. Economic guidance must be deployed as the most fundamental tool if we are to combine it effectively with the market mechanism of labor movement. If the city offers diminishing benefits relative to the countryside and if it becomes more advantageous to stay in the latter, rural workers would not take the risk of leaving their hometown and may even refuse to go elsewhere.

At the heart of the macroeconomic regulatory and control system is legislation. With national legislation as a basis, the provinces and municipalities must formulate local laws and regulations in light of specific local

conditions. Armed with legislation, the existing labor management agencies will be able to fulfill their managerial and supervisory functions. Cities should consider setting up a rural employment office and out-of-town workers management office to strengthen job placement and referral services and statistically combine urban labor with rural labor. In the countryside, we should set up township labor service agencies to place rural workers in jobs elsewhere; organize the outward migration of rural labor; manage peasants workers, both local and from out of town, working on public projects; and develop rural social insurance.

**Medium-, Long-Term Food Development Strategies**  
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[Article by Food Development Research Group, Chinese Academy of Agricultural Sciences: "Intermediate-, Long-Term Strategies for Food Development"]

[Text] Now that they have enough to eat and wear, the Chinese people are in the process of achieving a fairly comfortable standard of living. This stage presents the most favorable opportunity to adjust the food structure as well as a rare historic occasion when important choices must be made. Since household earnings are rising faster than our ability to supply food, there is a possibility that the imbalance in supply and demand in food may become permanent. Starting with a per capita food supply of 400 kilograms, we should increase animal-based foods and beans as appropriate and develop a nutritionally sound diet with Chinese characteristics. Toward that end, we have to select a strategy to adjust, optimize, and coordinate the structure, determine the appropriate technological line, adopt effect macroeconomic regulatory and control policies, coordinate regional development and urban-rural development, raise the resource utilization rate, achieve the food development goals of the next three periods, and bring about a basic balance between food supply and demand, even as we improve efficiency.

**1. A Historic Opportunity Not To Be Missed**

The period between now and the 2020's will be a crucial time in China in terms of economic and social development. As people move from the satisfaction of basic food and clothing needs to achieve a fairly comfortable standard of living, the food supply and demand situation changes rapidly and the gap between the two becomes wider. Hence we must grasp this rare historic opportunity and tackle the adjustment of the food structure as a basic national policy. As far as the historic background of the adjustment of the food structure is concerned, this period is characterized by the following four important features:

1.1 A crucial period in the adjustment of the food structure. First, as public purchasing power doubles and redoubles, the demand for food grows endlessly. Second, the rapid growth in the production of major foods,

particularly animal-based ones. Third, a radical change in the food structure. Malleability is high. A choice must be made as to what kind of diet we want.

1.2 A time when the concept of food is changing. First, there is the transition from the traditional concept of food to its modern counterpart. A monotonous diet is now changing as people demand more variety. Second, unsound food consumption habits are being replaced by modern nutritional concepts as people demand the application of modern nutritional knowledge to guide food consumption.

1.3 An important period in balancing consumption, nutrition, and production development. Now that people have enough to eat and wear, the thrust in the expansion of food production is dietary improvements. Thus, making our diet nutritionally sound becomes the scientific basis for guiding consumption, increasing production, and adjusting the structure.

1.4 A time to lay the foundation for improving the people constitutionally and developing a culinary culture. In the near future as good quality food becomes more widely available, the people's physique will improve by the day, with corresponding developments in our culinary culture. This is a long-term plan with a bearing on the resurgence of a nation.

It can thus be seen that if we fail to grasp this opportunity, the adjustment of the food structure will become difficult to reverse and we will have missed a rare chance in history.

## 2. Stages and Trends in Food Development

The important basis for selecting a food development strategy for a specific period: proceed from the reality in China while learning from historical experience. Scientifically divide the history of food development in China into stages. Analyze the chief characteristics and development trends of each stage.

2.1 The basis for dividing the history of food development into stages. In the course of national economic development, the essential constraints on food development are the level of household incomes and food supply capability. Based on this analysis, and considering the need to adjust modern food development, food structure, and nutrition structure, we propose the following five systems of indicators for dividing the history of food development into stages. One, the level of household incomes and the ratio of spending on food consumption using the Engel coefficient for comparison. Two, the level of food consumption. This reflects the ability to provide food, supply food, and consume food. Three, food composition, mainly the ratio between plant-based food and animal-based food as well as the ratio between the various types of food within each group. Four, the level of dietary nutrition, including the total amount of nutrients and their respective caloric contents. Five, food consumption patterns, including food supply and distribution patterns, the relations between household, individual, and social consumption, the extent to which consumption is socialized, and the concept and behavior

of household food consumption. These five aspects are interrelated and must be comprehensively applied and appraised as a whole in dividing the history of food development into stages.

To facilitate the evaluation of the food nutritional structure and unify methods of calculation, we have selected 55 of the most common and typical foods, including both vegetable-based foods and animal-based foods, and grouped them into 12 major categories. We based ourselves on the reality in food production and consumption in China, conducted analytical studies, and solicited a wide spectrum of opinions. The upshot is the unprecedented "Major Foods in China and their Nutritional Contents." (See Table 1) The method of calculation is in line with the way food is actually consumed in China. Simple and easy to work with, it has been adopted by some sectors and localities besides being applied in this project.

2.2 The stages in food development in China. After conducting a statistical analysis of the historical data on the period following the founding of the PRC and projecting future developments, we have divided the 70-year history of food development between 1949 and 2020 into three stages based on the indicators and methods described above.

2.2.1 From poverty to satisfying basic food and clothing needs (1949-1984). This stage can be subdivided into two stages: The stage from 1949 to 1978 was a time of poverty. Household incomes were at a low level and so was consumption. Per capita national income was below 340 yuan (1980 constant prices) and the Engel coefficient stayed above 60 percent (68 percent in 1978). Food consumption was low and stagnant, with per capita food consumption hovering below 300 kilograms. Food structure was monotonous. Besides grain, other foods were consumed in very limited quantities, so basically it was a one-grain food structure. Caloric intake was inadequate. The nutritional level was low and did not provide enough energy, below 2,000 calories per person per day. Protein and fat were disproportionately lacking. By and large it was a survival type of food structure.

Between 1979 and 1984, China entered the stage when its people had enough to eat and wear. The rise in household incomes and consumption level accelerated, per capita national income reached 500 yuan or so, while the Engel coefficient dropped below 60 percent (58.8 percent in 1984). The consumption of all kinds of food increased substantially and per capita food consumption exceeded 350 kilograms. The food structure was diversified with the inclusion of some animal-based foods. The level of nutrition rose notably and the per capita daily caloric intake exceeded 2,400 calories, a key indicator that people basically had enough to eat and wear.

2.2.2 The transition from meeting basic needs to achieving a fairly comfortable standard of living (1985-2000).

After the basic needs for food and clothing were met, the main objective was to improve the quality of food. The signpost of a fairly comfortable standard of living is a per capita national income of 1,100 yuan or so, an Engel

coefficient below 50 percent, per capita food consumption around 400 kilograms, and a marked increase in animal-based foods and beans; a notable improvement

in dietary nutrition, per capita daily intake of 2,500 calories, over 70 grams of protein, including 35 percent or more of good-quality protein.

Table 1. Major Foods and Their Nutrient Constituents in China (Unit: kilogram)

Category	Food	Energy (gram)	Protein (gram)	Fat (gram)	Notes
Vegetable-based Foods	Grain	3,590	92.0	23.8	Breakdown: cereals, 93%; sweet potato, 5%; beans, 2%
	Cereals	3,536	86.6	22.0	
	Processed Grains	3,504	84.2	15.4	80% of total cereals
	Polished Rice	3,486	76.2	13.8	63% of processed grains
	Wheat Flour	3,532	98.0	13.0	35% of processed grains
	Millet	3,620	97.0	35.0	2% of processed grains
	Coarse Grains	3,666	96.6	48.8	20% of cereals
	Corn	3,590	86.0	52.0	50% of coarse grains
	Sorghum	3,640	77.0	33.0	15% of coarse grains
	Buckwheat	3,540	106.0	25.0	buckwheat, naked oats, panic, and zhaiban (made of highland barley) together make up 35% of coarse grains
	Sweet Potato	892	18.0	1.4	sweet potato, potato each 50% (fresh weight)
	Beans	3,956	344.4	150.0	soybean, 80%; pea, broad bean, 10% each
2. Vegetable Oil		9,000	0	1000.0	
	3. Sugar	3,776	4.6	0	Sugar from sugar cane and sugar beet, each 50%
	4. Vegetables	180	11.4	1.6	Chinese cabbage, 30%; radish, 20%; eggplant, 20%; red pepper and tomato, each 15%
	5. Fruits	436	6.2	2.4	apple, 36%; pear, 21%; orange, 27%; banana, 16%
	6. Fresh melon	162	5.6	0.4	watermelon, 60%; melon, 20%; Beilan melon, Hami melon, each 10 percent
	7. Wine	1,842	0	0	alcohol, 36%; beer, 45%; others, 19%
Animal-based Foods	8. Meat	4584	93.0	464.4	pork, 83%; beef, 4%; mutton, 3%; poultry, 10%
	1)pork	3,278	86.5	544.2	
	2)beef	1,496	174.9	88.7	
	3)mutton	2,670	96.6	250.6	
	4)poultry	627	113.8	17.6	
	9. Eggs	1,468	123.8	101.4	hen eggs, 90%; duck eggs, 5%; goose eggs, 5%
	10.Milk	690	33.6	40.2	cow milk, 87%; goat milk, 13%
	11.Aquatic products	782	125.0	24.2	fish and shrimp, 88%; oyster, 10%; protonema, 2%
	1)saltwater fish	712	123.6	23.6	
	2)freshwater fish	706	112.2	29.6	
	12.Animal oils	8,910	0	990.0	

Note: Advice sought from the State Statistics Bureau as well as experts in the fields of nutrition, agriculture, commerce, and food in preparing this table.

**2.2.3 A stage when China graduates from being modestly well-off to being affluent (2000-2020).**

As China approaches affluence, its food structure becomes more and more rational, with qualitative improvement replacing quantitative increase as the main feature. Per capita national income exceeds 2,000 yuan, the Engel coefficient drops to 40 percent, per capita food consumption reaches 480 kilograms, marked by a notable drop in directly consumed grains; the quality of dietary nutrition further improves, with good-quality protein accounting for over 45 percent of all protein intake. (Table 2)

**2.3 A food structure consistent with the state of the nation.** Select a rational food structure based on China's population, resources, economy, and dietary traditions and habits, and by learning from positive experiences in the world. Its major characteristics are:

**2.3.1 The food structure should be solidly based on vegetable-based foods, supplemented by animal-based foods.**

**2.3.2 Among vegetable-based foods, emphasize grains.** Strike a proper balance between the "five cereals and other cereals." Make the most of beans. Increase the supply of vegetables, fruits, vegetable oils, and sugar.

**2.3.3 Increase animal-based food. Adjust the meat structure. Make better use of eggs, poultry, and aquatic products. Increase milk consumption as appropriate.**

**2.3.4 Guided by nutritional science, improve the balance among calories, protein, fat, vitamins, minerals, and dietary fiber so as to put together a diet that is balanced and nutritious in an all-round way and prevent malnutrition in any of its forms.**

**2.3.5 Firmly adjust measures to suit local conditions and take into full consideration the differences between regions, nationalities, and groups. Guided by the basic policies and principles governing food development, each should gradually adjust and perfect its own food structure.**

**2.4 Basic trends in food development.** One, the course of food development can be divided into distinctive stages, each with its own characteristics and qualitative regularity. Two, in terms of the progression of food development, food consumption goes from severe shortages to quantitative increase and qualitative improvement to relative stability. Three, national income and household consumption level are the principal determinants of food consumption, exhibiting varying proportionate relations from stage to stage. Four, as household consumption level goes up, spending on food consumption will decrease relative to total living expenses. Five, gains in food production and supply capability are closely related to and proceed in tandem with increases in animal-based food consumption.

**Table 2. Comparing Food Development Quantitative Targets for 1978, 1984, 2000, 2020**

Item	Target	1978	1984	2000	2020
National Income and Consumption Level	GNP per capita	403	622	1480	3040
	National income per capita(yuan)	339	506	1137	2123
	National consumption level(yuan)	149	304	583	1084
	Engel coefficient(%)	67	58.8	48	40
Food Consumption Level and Food Structure	Consumption per capita(kg/yr)				
	1.Grain				
	Grain available per capita(unprocessed)	300	less than 350	400	450
Grain consumption per capita(processed)	163.50	216.20	183.2	173.2	
	Cereals(processed grain)	-	-	161	148
	Sweet potato(fresh weight)	-	-	36	36
	Beans	2.60	3.30	15	18
	2.Edible vegetable oil	1.63	4.70	9	10
	3.Sugar	2.49	4.88	6	8
	4.Vegetables	140	143	120	120
	5.Fruits	6.60	9.30	18	36
	6.Meats	8.18	15.62	24	25
	7.Eggs	1.67	3.91	12	18
	8.Fish	3.30	4.36	9	14
	6+7+8	13.15	23.89	45	57
	Milk	1.00	2.38	9	18

**Table 2. Comparing Food Development Quantitative Targets for 1978, 1984, 2000, 2020 (Continued)**

Item	Target	1978	1984	2000	2020
Dietary Pattern	National average daily nutritional supply				
	1.Energy(kcal)	1816	2654	2575	2593
	including carbohydrate(%)	76.3	72.663.7	61.6	
	protein(%)	10.0	10.0	11.3	12.0
	fat()	13.7	17.4	26.4	26.4
	2.Protein(gram)	45.2	66.6	72.7	77.6
	including:bean protein(%)	-	-	19.5	21.9
	animal protein	8.8	11.1	19.8	24.8
	3.Fat(gram)	7.8	51.4	71.6	75.9
	including:vegetable oil(%)	54.5	53.9	57.7	58.3
	animal fat(%)	45.5	46.1	42.3	41.7

### 3. Projecting Aggregate Food Supply and Aggregate Food Demand:

#### 3.1 Projecting aggregate food demand

Food demand levels have been calculated. Using four different criteria and methods including income demand and dietary nutrition, we have arrived at these projected demand levels of the major foods:

1995: grains, 480 million tons, 400 kilograms per capita; meat, 31 million tons, 26 kilograms per capita; eggs, 11.90 million tons, 10 kilograms per capita; aquatic products, 15.80 million tons, 13 kilograms per capita.

2000: grains, 530 million tons, 415 kilograms per capita; meat, 36.50 million tons, 28 kilograms per capita; eggs, 15.8 million tons, 12 kilograms per capita; aquatic products, 18.50 million tons, 15 kilograms per capita.

2020: grains, 67.5 million tons, 450 kilograms per capita; meat, 55.50 million tons, 37 kilograms per capita; eggs, 27 million tons, 18 kilograms per capita; and aquatic products, 31 million tons, 21 kilograms per capita.

#### 3.2 Projecting Aggregate Food Supply

Based on resources, material technology, and fund input-output, we project that the output of the main foods may reach the following levels:

1995: grains, 460 million tons; meat, 29.3 million tons; eggs, 11 million tons; aquatic products, 15 million tons.

2000: grains, 510 million tons; meat, 34.4 million tons; eggs, 14.90 million tons; aquatic products, 18 million tons.

2020: grains, 652 million tons; meat, 53 million tons; eggs, 26 million tons; aquatic products, 30 million tons.

#### 3.3 Analysis of the supply and demand of major foods

Assuming that the necessary materials, technology, and funds are available and with effective macroeconomic

regulatory and control policies in place, we can essentially achieve the development objectives for the major types of food provided we make a herculean effort. However, the comprehensive balance analysis shows that projected aggregate output for the 3 years, namely 1995, 2000, and 2020, clearly falls short of the aggregate demand. Hence a supply-demand gap of varying magnitude. Demand pressure for food will remain a weak point in China's economic life for a long time to come. The supply-demand gaps of the major foods are: grains, 22 - 25 million tons; meat, 1.8 - 2.5 million tons; eggs, 800,000 - 900,000 tons; milk, 100,000-500,000 tons; aquatic products, 500,000 - 1 million tons; vegetable oil, 1.8 million - 2.4 million tons; and sugar, 1.7 million - 2 million tons.

### 4. The Adjustment of Food Consumption and Production Structure

Faced with rising per capita food demand and per capita food resources shortages, resulting in an imbalance between supply and demand, we must select a structural adjustment strategy and work to realize food development objectives by making the structure more efficient.

4.1 The need to adjust and optimize food structure. One, there is a wide disparity between food supply and demand. We need to bring about rational consumption and increase food supply through adjustment. Two, existing food resources are not being utilized properly. Adjustment is necessary to make the utilization of resources more efficient. Make effective adjustments targeting such problems as the fact that grain-consuming food constitutes too large a share of all food consumed and is growing too fast, imbalance in dietary nutrients, the overly rapid expansion of the cigarette and alcoholic industries, and extensive waste in food consumption.

#### 4.2 Adjusting the Food Consumption Structure

The guiding thought behind adjustment: Help raise the level of dietary nutrition and improve the consumption structure. Contribute to a nutritionally balanced diet.

Help create a food consumption model that is grain-economizing and highly efficient and conforms with the state of the nation. Take into consideration the long-standing consumption patterns of different regions and nationalities.

Proceed from modern food concepts. Guide food consumption properly, forming a consumption pattern that is scientific, nutritious, and appropriate. Adjust the diet and its nutritional mix by increasing as appropriate the proportions of animal-based foods and beans. In the next 3 periods the per capita daily caloric intake nationwide will stabilize at around 2,500 calories. The composition of the sources of calories will improve markedly. While carbohydrates will constitute a progressively smaller share, a growing share will come from protein. Fats too will contribute a notably larger share, but advisably not more than 30 percent. The composition of protein will also improve appreciably; not only will there be a quantitative increase, but the proportion of good-quality protein will rise to 25 percent, 40 percent, and 45 percent, respectively. At the same time, make adjustments to reduce food consumption pressure, improve consumption results, change the welfare subsidy system, and adjust the pattern of household cash expenses.

#### 4.3 Adjusting the food production structure.

4.3.1 The traditional system in agriculture is a dual system dominated by grains and cash crops. That system should gradually be replaced by a modern structure featuring balanced development among grains, fodder, and cash crops where agriculture and animal husbandry nurture each other. Gradually develop the production of fodder crops into a relatively independent industry. By 2000, the ratio between the three kinds of crops will be 6:2:2, and by 2020, 5:3:2. In other words, 400 million - 500 million and 6.40 million - 720 million mu of farmland will be devoted to fodder crop production by those two periods, respectively. Meanwhile gradually switch over to good-quality high-yield fodder crops to improve the efficiency of the fodder industry without delay. In determining the acreage for crops and calculating output, corresponding adjustments should be made to remain in line with the fodder industry. Transcend traditional concepts about grains. Separate beans from grains and treat them as high-protein products. A specific plan should be made for the cultivation of beans and their output should be calculated separately. Give beans an important strategic place and accelerate their development.

Among other things, the adjustment of the food production structure should concentrate on increasing protein feed, progressively raising the protein content of feed from the current 10.4 percent to 12 percent by 2000 and 14.5 percent by 2020, which is the norm in regular mixed feed. That would increase good-quality animal-based foods by 15 percent and 30 percent, respectively, at the same time cutting back on the extensive waste of energy-based feed.

4.3.2 Animal husbandry structure. Stabilize the number of pigs on hand, increase pork output, and improve its quality. With that as a basis, work hard to increase the scale of poultry raising as poultry raising consumes less grain and has a higher conversion rate. In other words, reduce the share of pork in overall meat production as it is heavy on grain consumption and increase poultry proportionately. Among animal husbandry products, the share of eggs and milk should also be increased. Pork is projected to account for (in volume) 64.4 percent of all meat production in 2000 and 62.5 percent in 2020, down from 80.9 percent in 1989, while poultry will increase to 25 percent in 2000 and 28.1 percent in 2020, up from 10.4 percent in 1989. At the same time, beef, mutton, and rabbit meat will also account for a growing share of total meat production.

4.3.3 Structure of the aquatic industry. Give priority to breeding, but put equal emphasis on fishing and processing as well. In the coming three periods, freshwater fish should account for 46 percent, 50 percent, and 56 percent, respectively, of the total output of the aquatic industry, up from 43 percent in 1989. The output of saltwater breeding should increase to 16 percent, 17 percent, and 19 percent, respectively, of total aquatic output, up from 13.4 percent; the catch of ocean fishing should account for 38 percent, 33 percent, and 25 percent of total aquatic output, respectively, down from 43.6 percent; processed aquatic products should account for 18 percent, 24 percent, and 62 percent, respectively, of aquatic output, the rest being raw materials, up from 13.6 percent in 1989.

4.3.4 The structure of the food processing industry. The industry should accommodate the special features of the food consumption structure and produce a full range of multiple processed foods at different levels of the market based on the principles of adapting measures to suit local conditions and sound consumption. The aim is to increase processed food from the current 20 to 30 percent of the diet to more than 50 percent in the course of time.

#### 5. The Technological Line of Food Development

To achieve the strategic objective of food development and structural adjustment, we must increase scientific and technological [S&T] inputs, vigorously push ahead with the technological transformation of food production, and gradually shift the strategic focus of food production to a massive reliance on technological progress.

5.1 Selecting a technological line for food development. Take as given the period's productive resource profile, its level of economic development, as well as changing trends in the food structure. Then proceed from the conditions in China and select a high-output, high-quality, low-consumption, high-efficiency technological line that combines traditional agricultural technology with modern S&T. The goal is to improve comprehensive food productive forces. Its main thrust is to raise

land productivity and input-output economic returns. Its approach is to increase labor-, technology-, and fund-intensity.

**5.2 Increase S&T inputs.** The contribution rate of technological progress to food production has climbed from 20 percent in the 1970's to 30 percent and 40 percent in 1980's. Sustained steady growth in food production requires us to increase the comprehensive contribution rate of S&T progress to food development by one percentage point annually on the average, reaching 45 percent in 1995, 50 percent in 2000, and 60-70 percent by 2020.

**5.2.1 Disseminate existing agricultural S&T achievements.** According to statistics, the nation had 7,000 agricultural S&T achievements each year during the Sixth Five-Year Plan and Seventh Five-Year Plan. For the decade as a whole, there were 25,000 achievements (including some duplications) winning awards at or above the provincial level. However, the potential of these achievements for increasing output is far from being fully tapped. Hence the need to organize an effort to disseminate some of the major comprehensive complete technologies.

**Agriculture:** developing in earnest the following eight pieces of applicable and advanced technology will increase grain output by 100 billion kilograms and raise vegetable and fruit output by 10 percent: switch to good varieties across the board; reform the cropping system and develop winter agriculture; improve low- and medium-yield land; improve farming and cultivation methods by applying plastic film technology, for instance; fertilizer application and water-saving irrigation technology; and technology for storing fruits and vegetables and preserving their freshness.

**Animal husbandry:** By concentrating on the dissemination of the following seven pieces of advanced technology, we can raise livestock output by a wide margin: using good breeds of livestock and poultry; fodder development technology, comprehensive complete technology for the intensive raising of pigs and poultry, comprehensive coordinated technology for treating grassland and raising plant-eating poultry; comprehensive prevention and treatment of poultry diseases; preservation, storage, and transportation technology for meat, eggs, and milk; complete technology for raising livestock in the north in winter by using plastic heated sheds.

**Aquatic industry:** Concentrate on the dissemination of the following four pieces of advanced technology in order to develop new aquatic resources, raise the level of breeding and processing, and vastly increase output: comprehensive technology for developing aquatic resources, breeding, preserving the freshness of aquatic products, and processing them.

**Food processing.** Concentrate on disseminating cereals, oil, soybean, and sugar processing technology; canning;

beverage and milk processing technology; food expansion technology; and technology for developing new resources.

**5.2.2 Build up an S&T reserve for food development.** Correctly perceive scientific research as a long-term exploratory piece of work. Only when S&T moves to the forefront of production can it generate an endless stream of achievements, providing an S&T reserve that will identify new approaches for food development. It is imperative that we come up with a host of major technological achievements and breakthroughs in the four areas of farming, animal husbandry, food processing, and biotechnology by the end of this century and by the 2020's. The focus should be on developing superior breeds and varieties by selection, complete technology for intensive production, and technology for storage, preservation, comprehensive processing, and utilization. It is estimated that by the year 2000 the output value of major biotechnologies may reach 6 billion to 8 billion yuan. The first two decades of the next century will be a time for fully utilizing high-tech in food production.

**5.3 Strengthen the material base for food development.** To achieve the food development goals for the different periods requires corresponding material inputs. First, speed up the development of the agricultural chemical industry. The demand for chemical fertilizers in the upcoming three periods will be 25-28 million tons (active ingredients), 30-32 million tons, and 48-60 million tons, respectively, along with corresponding adjustments to the ratios among nitrogenous fertilizers, phosphate fertilizers, and potash fertilizers. The demand for pesticides may reach 230,000 tons by 1995, and between 250,000 and 300,000 tons by the year 2000. The demand for agricultural plastic film will be around 880,000 tons by 1995, 1.23 million tons by 2000, and 4.38 million tons by 2020. Second, practice sound water and soil conservation. Expand irrigated area to 800 million mu by 2000, increasing irrigated area by a net 80 million mu from the level of 1988. According to analysis, as much as 960 million mu of cultivated land can be irrigated, about 60 percent of all area under cultivation in the country. Third, develop agricultural mechanization selectively. Limit the increase in the power of agricultural machinery as appropriate. The emphasis should be on modernization and coordinated development between tractors and related equipment, preferably keeping farm mechanized power at about 350 million kilowatts by the year 2000. Fourth, adopt an energy policy that puts equal emphasis on development and conservation. Commercial energy supply in the food system should be maintained at one-third of all energy supply nationwide in the near future, dropping to one-quarter in the medium- and long-term. Also pay attention to environmental protection. Enforce the policy of "prevention first" and establish and perfect a management system and supervisory system for food and the food environment.

**5.4 Adopt an appropriate technological policy.** Protect and utilize food production resources properly. Speed up

the development of agricultural industry. Develop agricultural mechanization selectively. Assiduously intensify food S&T work. Toward that end, boost investment in food S&T. Food production projects must utilize S&T progress. Improve the food S&T work conditions. Step up the buildup of a corps of S&T workers. Perfect the food technology dissemination system. Organize food S&T activities by the various departments and coordinate them. At the same time, S&T work in food must meet the requirements of the adjustment of the food structure. Even as we continue to intensify plant food studies, we must gradually step up research on animal food and post-production processing proportionately.

#### 6. Macroeconomic Regulatory and Control Policies and Circulation Policies

To adjust the food structure successfully, we need to modify and perfect the macroeconomic regulatory and control policy correspondingly, improve the circulation system, and make the most of the socialist market system.

6.1 Utilize the market mechanism to expedite food production development and structural adjustment. Assuming that the overall level of food prices is compatible with the overall price level in society, we should gradually adjust price ratios within the food production sector. The food price elasticity coefficient is projected to be less than one in the future, and changes in price ratios are expected to play a more and more important role in regulating production. Price adjustments should concentrate on adjusting price ratios between different foods. Toward that end, this research project has suggested what it thinks are appropriate price ratios between a number of major foods and grains: vegetable oil:grains, 6.6-7.0:1; sugar cane:grains, 0.16:1; beet:grains, 0.19-0.22:1; soybean:grains, 2.5:1; pork:grains, 5-6:1; and beef:grains, 7-8:1. Second, use the price lever properly to guide consumption, gradually reduce the portion of food sold at low prices and raise selling price appropriately. Where conditions allow, prices may be deregulated to facilitate the adjustment of the food demand structure. Third, reform the food price subsidy policy. Gradually abolish price subsidies for non-staple foods. Adopt a proportionate subsidy policy depending on the variety of grain. Under a proportionate subsidy policy, the supply of a variety that is being subsidized will be rationed, usually to the tune of 50-70 percent of the total amount, the rest being sold freely.

6.2 Gradually build up a planned, controlled, stable, but active food market system. The goal is to bring about two changes: vitalize the state-run and collective food buying and selling system, on the one hand, and increase the extent of organization of individually run food stalls and retail outlets, on the other, in order to improve the quality of their operations. Gradually turn food production bases, wholesale food market, food stores, and retail outlets into a stable circulation and trading network revolving around the wholesale market. Improve quality control and price regulation. Establish a unified national

market and put the major food market under government planning, supervisory, and auditing guidance so that it becomes a place where the two mechanisms—planned guidance and market regulation—are merged.

6.3 A selective food import-export policy. Given the reality in the country, China must solve its food problem domestically and achieve self-sufficiency in food, turning to the international market only for structural regulatory purposes and as a means of regulating surpluses and shortages between good years and bad. To bring about a basic balance between domestic supply and demand, we must fully utilize food resources on the world market, maintaining grain imports at the 16-20 million ton level, sugar imports at the 2 million ton level, and vegetable oil imports at the 1 million ton level for the remainder of the century. Rice cakes and soybean exports should be strictly controlled and an appropriate amount of high-value good-quality food and seafood delicacies may be exported.

#### 7. Regional Variations of Food Development

With its vast territory, China's population resources and environment differ from region to region, making the development of a region highly local. Thus we must customize guidance by region and initiate regional food development studies. Divide the entire nation into six regions: northeast, north, lower and middle reaches of Chang Jiang, south, southwest, and west.

##### 7.1 The state of regional food development and its changing trends

According to data for the period 1985-1987, the lower and middle reaches of Chang Jiang are the region in China where food development is most comprehensive and has achieved the highest level, followed by northeast China, with the west at the bottom. In terms of food consumption level, south China is the leader, with the lower and middle reaches of Chang Jiang in the second spot. Although it has a higher food production level than west China, north China occupies the lower end of the pecking order, as does west China, in food consumption level and nutritional level. We can thus see that there are substantial regional disparities in food development.

These are the emerging trends in regional food development. Regional differences in food development are essentially a function of unevenness in socioeconomic development. To a large extent food resources and production distribution determine the food consumption level and food structure of a region. Grains are the crucial constraint on the adjustment of the food structure. It will take a prolonged historical process to close the gaps in regional food development.

##### 7.2 The goals of food development of different regions

Based on a region's economic development level, food production capability, and effective supply capability, projections have been made regarding food development in each of the six regions for the upcoming three periods.

The criteria are economic feasibility, the extent to which food resources can be utilized, scientific nutrition, structural rationality, and regional balance.

**Dietary nutrition objectives:** The six regions can be divided into two groups. The first group consists of those which have met the basic food and clothing needs of their people. The second group is made up of regions which have tentatively met such needs or are about to do so. These two groups have different dietary nutritional objectives. The lower and middle reaches of Chang Jiang, northeast China, south China: Now that they have stabilized energy and fat supply, these regions should concentrate on improving the quality of protein, increasing its quantity as appropriate, and take pains to achieve a balance between the various trace elements and vitamins. By 2000, the structure properly adjusted, they will have achieved a nutritional level characteristic of a fairly comfortable standard of living. North China, southwest China and west China: These regions should further ensure that their people have enough to eat and wear, increasing the quantity of protein and fat intake and improving their quality. North China and west China should increase the caloric intake as appropriate. With food development making progress all round, they can expect to achieve a nutritional level characteristic of a fairly comfortable standard of living by 2000 or a little thereafter. To achieve the above-mentioned dietary nutritional objectives, a corresponding food structure must be established with a commensurate food consumption level and food production level.

### 7.3 Regional food development strategy

A regional food development strategy appropriately biased in favor of some regions is necessary to arrest the trend of continuous widening gaps between east China, central China, and west China. The regions should complement one another to mutual benefit. Step up interregional cooperation and food exchange. Break down regional separatism. Based on the requirements of achieving a demand-supply balance for each region and the characteristics of changes in food circulation, we should formulate an effective regional regulatory policy that will both improve government planning and administration intervention and utilize the market as a regulator on an interregional basis.

## 8. Urban Food Development and Rural Food Development

Urban food development and rural food development each have their own distinctive regional characteristics and trends. To carry out individualized guidance, we need to coordinate urban food development with rural food development effectively, in addition to considering regional differences.

### 8.1 Characteristics, trends, and goals of urban food development

Urban food development has five major characteristics: 1) The urban scale expands endlessly as the permanent population and floating population soar, putting food supply under enormous pressure. 2) The city is the focus

of political, economic, cultural, and social development and plays a leading role. Its food supply should be ensured on a priority basis. 3) Urban residents have a higher income level and food consumption level and have always been the pacesetters in food development. The differences between income groups in food consumption are insignificant. 4) The state of dietary nutrition of urban residents has improved markedly, with some beginning to experience the "rich man's diseases" caused by an unbalanced diet. 5) The rising commercialization and socialization of urban household consumption. There are countless commercial food supply outlets, offering the public plenty of choices.

**The trends in urban food consumption:** 1) Grain consumption is relatively low and has been declining steadily throughout. In contrast, spending on nonstaple foods is rising rapidly. 2) Animal-based food consumption continues to grow, with demand for fresh products rising particularly briskly. 3) Consumption of fruits and alcohol rises by leaps and bounds, while that of oil and sugar holds steady. Consumers demand more from the quality of vegetables. 4) The increase in dietary calories slows down, while that of animal protein and fat continue to climb.

**Food consumption level and nutritional level of urban households: projected goals.** Per capita grain consumption continues to decline, consumption of vegetable oils will inch up slightly, while that of vegetables will decline marginally. Fruit consumption will increase sharply; consumption of meat, eggs, and aquatic products will climb gradually; the combined per capita consumption of the three will reach 59.7 kilograms and 73.6 kilograms by 2000 and 2020, respectively. Milk consumption will grow briskly while pork consumption will stay constant, its share of all meat consumption falling to 56.1 percent and 48.6 percent, respectively. Poultry will account for 31.2 percent and 37.6 percent of all meat consumption by 2000 and 2020, respectively. In terms of nutritional structure, the share of calories, protein, and fat derived from animal-based food will rise steadily, reaching 21.7 percent, 34.3 percent, and 51.8 percent, respectively, by 2000.

### 8.2 Characteristics, trends and goals of rural food development

Rural food development has five major characteristics: 1) The rural population traditionally makes up the bulk of the nation's total population. The population base is huge and most food consumption takes place in the countryside. 2) Most food consumed in the countryside is also produced locally. Consumption is unstable; there are significant variations from year to year, from season to season. 3) The level of rural household income is low, as is the level of consumption. They differ significantly from region to region and food consumption is stagnant. 4) While peasants have enough to eat and wear on the whole, the quality of food is quite poor and the amount

of animal-based food consumed trails that in cities. 5) Rural food consumption is under-commercialized and under-socialized. Little of it goes through the market.

**Trends in rural food consumption:** 1) The consumption of major foods has been rising across the board. 2) Grain consumption is high and remains stubbornly so. 3) The consumption of animal-based foods has begun to rise briskly but remains quite modest in absolute terms. 4) Caloric intake stays at a high level. Animal protein makes up a very small share of the nutritional structure, a situation that has yet to change in the course of time.

**Food consumption level and nutritional level of rural households: projected goals.** Per capita grain consumption will remain at the 250 kilogram level. The consumption of oil, sugar, and vegetables may remain steady or increase slightly. Fruit consumption will increase rapidly. Among animal-based foods, the consumption of meat, eggs, and aquatic products will grow rapidly; the combined per capita consumption of the three will reach 40.5 kilograms and 55.9 kilograms in 2000 and 2020, respectively. In 2020, pork, beef and mutton, and poultry will account for 62.9 percent, 12.1 percent, and 25.0 percent of total meat consumption. Pork will still account for the bulk of meat consumed, while poultry consumption will have grown rapidly. In terms of nutritional structure, caloric intake will remain at the 2,600 calorie-level. Energy, protein, and fat derived from animal-based foods will go up gradually, reaching 14.1 percent, 23.8 percent, and 44.9 percent, respectively, of the nutritional structure, still significantly lower than their urban counterparts.

**8.3 Prospects for narrowing the gap between urban and rural food development.** 1) Only with coordinated urban and rural economic development can we bridge the urban-rural food gap over time. 2) The development of township and town enterprises will boost food production and supply capability powerfully. 3) Having met their basic needs for food and clothing, people will move toward a fairly comfortable standard of living and then affluence amid continued economic growth. In the process, the gap between the level of consumption in cities and its rural counterpart will narrow gradually, but will remain a considerable one. The ratio between the consumption level of peasants and that of nonpeasants is projected to decline from 1:2.71 in 1988 to 1:2.29 in 1995, 1:2.15 in 2000 and 1:1.88 in 2020. 4) The guiding thought for urban-rural food development in the future should be: Stabilize the cities, improve the countryside, narrow the gap, and coordinate development.

#### 9. Main Conclusions and Proposals

**9.1** The next 30 years, particularly the period when people, having met their basic needs of food and clothing, achieve a comfortable standard of living, will be a crucial time in the adjustment of the food structure. Miss this opportunity and the food structure will be hard to turn around, which will have highly adverse effects on both economic development and the people's livelihood.

**9.2 Food development can be divided into distinctive stages.** In China, food development can be divided into three stages: 1) from poverty to satisfying the basic needs of the people for food and clothing (1949-1984); 2) from satisfying the basic needs to a comfortable standard of living (1985-2000); 3) from a comfortable standard of living to affluence (2000-2020).

**9.3 The food structure must conform with the conditions in China.** For many years to come, vegetable-based foods will remain the cornerstone of the Chinese diet even as consumption of animal-based foods like meat, eggs, milk, and aquatic products increases as appropriate. While ensuring the consumption of the necessary grains, we must further increase the consumption of beans, fruits, vegetables, potatoes, vegetable oil, and sugar. Integrate traditional processed food with modern processed food. Give full consideration to differences between regions, nationalities, and groups.

**9.4 Food shortages of varying magnitude.** The public's purchasing power will have doubled by the end of the century and will double again during the first two decades of the next century. Food production, however, is constrained by national power and resources. For the major foods, supply-demand imbalances, whether quantitative, qualitative, or structural, will be with us for a long time to come.

**9.5 The solution lies in choosing a food development strategy to adjust, optimize, and coordinate the structure.** To achieve the food development goals for each of the coming three periods and ease the demand pressure for food in short supply, we need to look at the nation's land resources as a whole even as we ensure steady increase in grain output, and, proceeding from modern food concepts, exploit food sources extensively, adjust the food consumption pattern, nutritional structure, and production structure in a systematic coordinated way, and concentrate on increasing the comprehensive return on food resources.

**9.6 Take strategic measures that mesh well with the adjustment of the food structure.** Rely on S&T progress, increase material inputs, and select a technological line and technological policy that are suited to China's conditions. Perfect macroeconomic regulation and control. Establish a sound food pricing system. Create a planned, controlled, stable, and active food market system. Select a coordinated food import and export policy.

**9.7 Implement a regional food development policy that treats the regions differently.** Apply an effective regional regulatory policy toward the nation's six food regions, which are of different types. Take government planning and administrative intervention seriously but make use of the market as an interregional regulator too. At the same time, coordinate food development in the cities with that in the countryside and gradually narrow the food consumption gap between peasant and non-peasant households. Establish the following as our guiding thought: "Stabilize the cities, improve the countryside, narrow the gap, and coordinate development."

9.8 Food development requires a favorable macroeconomic environment. Tighten the management of population, resources, and the environment. Limit population nationwide to 1.2, 1.28, and 1.56 billion for the upcoming three periods, respectively, if we are to achieve the corresponding food and nutritional development goals. Also, work out a food development policy that is consistent with developments in other sectors of the national economy. Step up guidance over food development and intensify organizational and implementation efforts in food development. Accordingly, it is proposed that a national food and nutritional guidance commission be set up along with an experts' committee. It is also proposed that an intermediate and long-term food development plan be drawn up to better mobilize the forces in all quarters and ensure the realization of food development goals and the structural strategy.

**Summary:** Taking aim at the gap between food supply and food demand, this article puts forward a systematic strategy and related measures to adjust, optimize, and balance the food structure. It outlines the approaches that can be taken to coordinate the food production structure with consumption structure and nutritional structure if we begin by adjusting the food production structure and guide households to achieve reasonable consumption. After analyzing the past and present, it presents a system of targets, divides the history of food development into stages, puts forward a food consumption model in line with China's national conditions, describes the food consumption pattern and nutritional level compatible with a fairly comfortable standard of living, and makes projections for the year 2020. It discusses how cities and the countryside as well as the various regions of the nation differ in food development, pointing out their respective characteristics, trends, goals, and policies. It points up a technological line and outlines a macroeconomic regulatory and control policy for food development. By proposing a set of food development objectives, a sound food structure, and a matching development strategy that have Chinese characteristics and are relevant to the economic development level of a specific period, this article provides a scientific basis for the effort by pertinent government agencies to draw up an intermediate- and long-term national economic plan and food development plan as well as a short-term food policy.

**Key words:** food, intermediate- and long-term, development strategy

#### **Peasant Organization Needed To Protect Own Interests**

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[Article by Ding Zeji (0002 3419 7221), affiliated with the CASS Rural Development Studies Institute; edited by Xin Ruo (2946 5387); "On the Need for Peasant Self-Protection Under Market Economy Conditions"]

[Text] [Editor's note] The author notes that in the transition of agriculture to a market economy, while it is necessary for the state to take steps to protect agriculture, the peasants must also at the same time organize themselves to affect markets and protect their own interests. The more developed the market economy, the more need for peasants to have their own organization. We hope that this matter will arouse attention among the parties concerned, and that all will begin to discuss it further. [End editor's note]

#### I

The conversion of agriculture to a market economy will require state help to eliminate the extraeconomic force of markets, as well as protectionist measures to help peasants resolve their selling difficulties. While these are essential steps in the development of a rural market economy, they are only one aspect, with another being peasant self-protection. While the need to resolve the conflict between small-scale agricultural production and large-scale socialized markets has been much noted in recent years, agricultural socialized service should also be divided into two parts: 1) Service provided to peasants by various public organizations, which comes from outside of peasants, and in which peasants are in a passive position. 2) Self-service organized by peasants themselves.

As to the abovementioned first aspect, the state's adoption of an agricultural-product price-support policy and a storage policy, as well as service provided to peasants by various public specialized economic and technical organizations, all play a role in helping peasants to adapt to a market economy and in protecting peasant interests. While these are agricultural protection that comes from beyond peasants, they still do not give peasants the capability to affect markets.

We often discuss ways for peasants to adapt to a market economy, while developed countries still discuss ways for farmers to affect markets. In our initial period of market economy development, we still need to consider the matter of building a developed market economy. The peasant impact on markets is mostly through market prices, with peasants having the capability to negotiate or talk over agricultural-product sales. In other words, as a market economy develops, peasants will have to make the transition from passively adapting to markets to actively affecting them. We talk here about affecting markets, not deciding or cornering them, because markets are composed of the two parties of buyers and sellers, in which either party is checked by the other, and final decisions can be made only through bilateral consultation and mutual influence, not unilaterally. The "white slips" (chits) are a unilateral decision, not normal market activity. So selling difficulties mean that peasants can neither affect or adapt to markets, leaving individual small-scale producers who are faced with the great wave of market economy the options of either accepting "chits" or not selling at all. Developing a market economy microeconomic foundation, by organizing

peasants to adapt to markets, is only one aspect, with the other being to further ensure that peasants organize to affect markets.

The more developed the market economy, the more need for all production enterprises to have a trade-association organization, with agriculture being no exception. But as agricultural production is dispersed and peasant households are numerous, its first organization should be the cooperative, as opposed to the first organization of industrial and commercial enterprises being the trade association. But the further combination of cooperatives is a little like an agricultural trade association. While this organizational form is peculiar to agriculture, its role is similar. In a market economy, this form of organization plays the following three key roles: 1) It can provide all sorts of services to peasants, playing the role of a contemporary socialized service organization. 2) It can represent the peasant side in market discussions and consultations with the other side on commodity trade. 3) It can play a bonding and dovetailing role in the macroeconomic regulation and control between peasants and government, linking government and peasant interests. In short, it has three functions: a service function, a negotiation function, and a bonding function.

## II

What are the specific forms of this type of organization? Peasant organizations include economic, political, social, and comprehensive economic-social-political organizations. China's peasant associations at the time of our land reform were peasant political organizations, with the role of overthrowing the landlord class, so completed their historic mission once land reform was over. What we are speaking of here is not that type of organization, but rather peasant economic organizations in a market economy. While agricultural producer cooperatives (elementary and advanced) were originally peasant economic organizations, as people's communes integrated government administration with commune management, the agricultural producer cooperatives evolved into comprehensive economic-political-social organizations. The people's communes included all economic activities of production, distribution, and consumption, as well as political and social activities. While this degree of organization seemed very high from the peasant perspective, this type of organization also restricted all peasant economic activity as well as political and social activity to a given regional scope, so that its degree of socialized organization was very low. According to Marx's potato metaphor, just as sack after sack of potatoes tied together make up many sacks containing the same potatoes, once they are poured out of the sacks they become simply many individual rolling potatoes with no links, which is not suited to large-scale socialized markets.

Since our rural economic reform, we have had two types of peasant-organized self-service organizations: 1) the original collective economic organizations; 2) new joint-economic organizations organized by a few peasants,

including various specialized technical associations. But as these two types of organizations were either basically on a community scale or small in size and weak in economic might, while they had the three abovementioned market economy organizational functions, they were very weak in might and limited in impact, so could not become a peasant self-protection force. These organizations are now exploring ways to become peasant organizations in a market economy. In the interests of avoiding detours in our explorations, we need to take a look at the successes achieved through 100 years of exploration by peasant (farmer) organizations in countries with developed market economies. These country farmer organizations, based on the method of assuming the abovementioned three functions, come in two types:

1. The abovementioned three functions are assumed separately by various organizations. Taking Germany (the former West German part) as an example, there are three types of farmer organizations: 1) Various specialized cooperative organizations, such as certain agricultural-product processing cooperative-organizations that practice joint farming and have a farm-machinery network. While they assume the abovementioned A function, providing socialized service to farmers, they are not formed into a national system, all being small-scale associations. 2) The national "German Cooperative and Leifson Federation," including the three systems of agriculture, handicrafts, and credit cooperatives. We will discuss here only the agricultural system, abbreviated as DRV, including the three organizational levels of national, regional, and grass-roots. Its grass-roots organizations are separated into various specialized cooperatives, such as dairy-product processing, livestock-product processing, wine, fruits and vegetables, credit, and supply and marketing. DRV provides farmers with production services, also representing them in market-circulation access, assuming the abovementioned two A and B functions. All farmers belong to one or more cooperatives. 3) The "Farmers Union." While it assumes only the abovementioned C function, representing farmers in dialogue with government, this is limited only to farmer-related matters. In fact, it organizes two middleman roles: a) It represents farmers in talks on matters, such as setting farmer's tax payments according to law, providing compensation for government takeover of farm land, and formulating agricultural-product price-protection policy. b) It considers farmer demands based on national and social interests, such as considering consumer sustainability and government financial subsidization capability in raising agricultural-product prices. So the Farmers Union essentially represents both sides' interests, while maintaining a middle political position. This organization's mission is to represent farmers in dialogue with government, so that it cannot operate commerce like the DRV. While 90 percent of the farmers in the former West Germany belonged to this organization, those who did not wish to belong did so because they felt it was not concerned with their interests.

2. The abovementioned three functions are assumed by farmer cooperatives and their associated organizations. Taking Sweden for example, a half century of development brought cooperatives gradually from the bottom up from various specialized processing and supply and marketing cooperatives to an association of several national cooperative systems. And the "National Farmers Association" modeled on a labor union was also established. By 1970, these organizations had merged into a national cooperative organization, the "Swedish Farmers Union," abbreviated as LRF, which comprehensively assumed all of the abovementioned A, B, and C functions. Subordinate to this are regional organizations and various grass-roots specialized cooperatives, with Swedish farmers belonging to an average of five such specialized cooperatives each.

From these two examples, it seems that the Swedish form is equivalent to a merger of all German organizations. In which case, will Germany's various organizations take the path of merging into one? I hold that we cannot simply sum up the development of peasant organizations in this one route. As peasant organizations in all countries are formed through historic movements in the various countries, they cannot be summed up in a single model divorced from varying national conditions. At this point we could mention Japan's peasant association. Japan's peasant association is essentially the same as the agricultural cooperatives in Sweden and even in all Western European countries, simply being more multipurpose in organization than the cooperatives in the various Western European countries. It combines all specialized cooperatives, such as credit cooperatives, into a peasant association, with a corresponding administrative regional organization at the three levels of national, regional, and grass-roots. So Japanese farmers need only belong to one peasant association in their locality, unlike Swedish farmers who belong to several specialized cooperatives. But Japan's peasant association has a very long history, having prewar support from the government, being established from top down, and acting as a government agent in rural areas. As the postwar democratic transformation has turned it into a peasant organization, it can comprehensively assume all of the abovementioned three functions.

While peasant organizations in all countries have distinct native characteristics, whether they assume the three functions comprehensively or separately, they must have the following two features: 1) They must have modern cooperatives as their grass-roots organization. 2) They must form an organizational system from regional to national. The former can provide socialized service to peasants, developing direct close links with peasants, while the latter can evolve into a sizeable force to affect markets.

### III

The peasant organizations in all of the abovementioned countries have the function of dialogue with government, with some even being specially organized to

assume this function. While China has a people's government, a people's government must consider all social parties throughout the country, with peasants as a social group, premised on having the same basic interests as the people throughout the country, still being a social stratum with their own interests, and needing their own organization to make their case with the government. Meanwhile, other social groups can make their respective cases with the government through their own organizations. As the government can more fully deal with problems in this way, China also needs an organization to link peasants to government. The establishment of a national and regional peasant association at all levels is now under discussion. In fact, the establishment of a peasant association can reflect peasant demands and protect peasant interests. It can better implement government policies and decrees among peasants, by setting up links between peasants and government, and assuming the abovementioned C function. But a peasant association per se is not an economic organization, being unable to provide socialized service to peasants, and even less being an economic force to affect markets. The social stratum of peasants differs from the working class, in that peasants are both workers and independent producers, so that worker organizations must have labor unions, while a peasant organization cannot be simply a labor union-type peasant association. So in order to establish a peasant association, it will be necessary at the same time to develop all sorts of specialized cooperative agricultural organizations, and to form a graded cooperative system. In short, we cannot simply organize a national and regional peasant association at all levels, but must simultaneously put more effort into organizing a national and regional cooperative system at all levels, with a peasant association and the agricultural cooperative system separately assuming the abovementioned three functions. This would result in a situation somewhat similar to Germany's.

How should we go about setting up such an agricultural cooperative system? In light of current realities, the easier way would be to reform our current supply and marketing cooperatives and credit system, so that they can assume the abovementioned B function and part of the A function. In talking about reform of supply and marketing cooperatives and credit cooperatives here, I am simply giving my personal views. Supply and marketing cooperatives and credit cooperatives in China have a long history of development, with both grass-roots organizations and a national and regional organizational system at all levels, giving them a certain amount of economic might. It was only the interference of the people's communization movement that gave them a nationalized or semi-nationalized state, which divorced them from the peasant masses. But their grass-roots organization was originally formed through peasant shareholding. So reform can closely link them economically with the peasant masses. Moreover, reform can make regional and even national organizations at all levels convert their functions and, through democratic elections, turn them into a grass-roots organization that

is jointly organized from the bottom up. In this way, we could start from our original system to evolve level by level a peasant specialized (circulation and credit fields) cooperative organizational system, to become a peasant representative with influence on markets.

Another view is that China ought to set up a multipurpose peasant organization like Japan's peasant association, to comprehensively assume the abovementioned three functions. While Japan established a modern cooperative organization based on small-scale peasant households, so that the Japanese peasant-association form merits our consideration, our current problem is how to establish such a multipurpose peasant organization in China. As China's rural areas now have supply and marketing cooperatives, credit cooperatives, community collective economies and township enterprises, and all sorts of small peasant associations, the question is whether to combine all of these existing organizations into an organization like Japan's peasant association, or to set these existing organizations aside and start from scratch? As starting from scratch would require a very large investment, and the establishment of a new organization that would duplicate existing ones would turn existing ones into market-competition adversaries, it would not be feasible to start from scratch. Meanwhile, in combining all existing rural organizations into one, we would first run into the problem of how to break down the existing organizational systems right from the start.

So at least at present, it would be very hard for us to establish a centralized multipurpose peasant organization that could assume all of the abovementioned three functions.

Thus, China's peasant organization adopting the form of several systems separately assuming the three functions, might be easier to establish, at least at first. We cannot copy the German, Japanese, or other country models, but can only make plans to set up a Chinese peasant organizations based on factors, such as our national conditions, national might, and government policies. Moreover, any plan is going to be rectified in our great tide of reform and development. The establishment of a peasant organization, as a specific form of our social superstructure, will be influenced by the historic movement at the particular time. As the man-made forces, particularly the views of the policymakers, in future historic developments is very hard to predict, there is great uncertainty here in comparison to demonstrating the feasibility of a technical engineering project. But one point is certain, i.e., the more developed the market economy, the more need for peasants to have an organization that can assume the abovementioned three functions. Provided our market economy develops, our great peasant nation will be bound to evolve some form of peasant organization to affect markets, to play the role of peasant self-protection.

## NORTHWEST REGION

### Xinjiang Minority Policy Hurt by 'Equal' Competition

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[Article by Ding Ke (0002 0344): "Equal Competition and Implementation of Nationality Policy"]

[Text] Recently I heard reports from some units to the effect that, in the enterprises' contract and optimization constituents, a considerable number of minority nationality staff and workers have been hurt by "optimization." This is a real problem. Following the deep involvement in reform, enterprises further obtained the right to use people, and this issue has become prominent. Also, following the reform of the government's organizational system, the areas affected could be expanded. This raises a question: In developing the market economy, how is the party's nationality policy to be implemented?

A striking characteristic of the market economy is equal competition in which the superior wins and the inferior is eliminated. Just as Marx said: Commodities are natural equals. Given the same commodity, whoever has low costs, good quality, and cheap prices will win in competition; the opposite will be eliminated. The consumer, called "God," on the market only considers a commodity's price, quality, and usefulness, and does not consider the producer's nationality and also does not obey the will of a senior official. Thus, market competition in essence is competition in producer skill, competition in quality, as well as competition in management strategy. The actual situation is that there exists a definite gap in the producer skill level and educational quality between Xinjiang's minority nationalities and the Han nationality, and between the various minority nationalities. This poses some specific problems for the market's equal competition and for the enterprises' optimization constituents.

In developing markets, the gaps between the various nationalities are mainly manifested in the following aspects:

1. There is a gap in the concept of commodity and in the consciousness of market. In the overall view, compared to the people in coastal regions, the Xinjiang people fall somewhat short in their concept of commodity and market; of the various nationalities in Xinjiang, the minority nationalities fall somewhat short in this respect compared to the Han nationality; and between the minority nationalities, those who engage in animal husbandry fall somewhat short in this respect compared to those who engage in agriculture.

2. There is a gap in the level of educational and cultural development. Because of historic, as well as other reasons, the level of the minority nationality economic and cultural development is a little lower than that of the Han nationality. Among them there are somewhat fewer people who

have mastered modern production and management skills, and there is a comparative unfamiliarity with the market economy's laws and operating mechanisms.

3. There is a gap between information transmission and the channels linking markets. The Han nationality people of Xinjiang come from all corners of the land, while some had origins in the interior, giving them countless ties to various places throughout China. In addition, their spoken and written languages are convenient, and their sources of information are fairly broad. They have a good number of channels linked to markets in China and abroad. But most of Xinjiang's minority nationalities live in compact communities in Xinjiang, where their macroeconomic environment is fairly confined. The minority nationalities who dwell in southern Xinjiang and in its remote mountain areas have even fewer links with the outside world. There, information is ineffective and markets are small; in addition, the market foundation is weak and communication is inconvenient. This has brought a series of difficulties to the development of the market economy.

However, we cannot, because of this, waver in developing in the direction of the socialist market economy, because it is fundamentally the way for all nationalities to develop and prosper, and it represents the long-term interests of all the nationalities. Basically, the market economy and the party's nationality policy are consistent with each other. What is most fundamental in the party's nationality policy is to achieve the equality, unity, and common wealth of all nationalities. Developing the socialist market economy is the fundamental way to achieve this goal, and, as Lenin and Stalin said, without it "de facto equality" among the nationalities cannot be achieved. However, we cannot ignore the real disparities between the nationalities. This requires a full display of the superiorities of the socialist system and the carrying out of many-sided work.

With regard to the minority nationalities, the most crucial factor in developing the market economy is to establish the concepts of commodity and market, and to overcome the vestiges of the ideology of the traditional "small peasant" economy. The main changes in these concepts are: Change the concept of producing for one's own consumption to the concept of production for the market's demand, while also stressing returns and stressing input and output. We must change the concept that a little wealth brings contentment and that "eating one's fill and wearing warm clothes surpasses the state of immortals," and establish the idea of constantly developing and progressing. We must change the concept of egalitarianism and of "eating out of one large pot," and establish the concept of studying how to be the first to become wealthy. We must overcome the concept of depending upon the state and depending upon the collective, and establish the concept of depending on oneself and on wanting to create wealth. We must overcome the concept of disparaging commerce and establish the consciousness of "making money." This a job that needs to be long-term and unrelenting. On the one hand it

depends on propaganda and education and on imperceptible influence; what is more important is providing typical examples and spreading experience.

To display a given nationality's superiorities, first of all it must occupy the market in its own locality—this is extremely important in the development of the market economy by a minority nationality. Every nationality has superiorities in certain aspects. Minority nationalities that engage in agriculture have superiorities in melons, fruits, and vegetables, in agricultural and sideline products, and in the aquatic breeding and handicraft industries; minority nationalities that engage in animal husbandry have strong points in livestock, leather and wool, meat, mountain products and special local products. The minority nationalities live in areas with abundant mineral resources, and each one has its own special features; people in these areas in general have superiorities in mining and in rough machining. It is worthwhile to display one's strong points and avoid one's weak points. Another very important point is: a minority nationality is familiar with its nationality's consumer psychology and aesthetic characteristics. The successful experience of Rebiya [3583 3024 0068], the woman entrepreneur of the Uyghur nationality known by all the people, is worthy of deep thought. Rebiya was an ordinary housewife who, with 70 yuan, started a business from scratch and painstakingly built up an enterprise. She has now become a big merchant who is well-known throughout China. The secret of her success was understanding the consumer psychology of her nationality, and thus her business' commodities, from variety, design and color, and pattern to grade, were able to meet the needs of the consumers of her nationality. In addition, her way of doing business was flexible, her capability to deal with emergencies was strong, and in market competition she enjoyed a very large superiority. If, in every household, a batch of Rebiya's can emerge, wouldn't the markets be invigorated!

The state must give its vigorous support. We are a socialist country, and our final goal is to achieve the common wealth of all the people (including all the minority nationalities). The modernization of the minority nationality economy is an important component of the modernization of the national economy; without it the four modernizations would be incomplete. The state has the responsibility and also the capability to help the minority nationalities develop their economies. This help should not be microeconomic, but should be macroeconomic; should not be a "blood transfusion" but should help them to develop "blood-making" mechanisms and to improve their self-reliance and their capability for self-development. When helping the minority nationalities, the state should make an effort in five aspects: First, in formulating policies they need to be a little more preferential, e.g., the tax rate and the loan interest rate can be a little lower to make up for the rise in commodity costs caused by the long communication lines and other factors in these areas. Second, the state must, based on the characteristics that there are abundant resources in the minority areas, in a planned

manner set up development projects in order to change the macroclimate in these areas for the development of the market economy by spurring the development of a number of industries. For example, construction of the third project of the Zepu Oil refinery spurred on a number of industries and changed the long-time closed state in that area; construction of the Southern Xinjiang Railway and the Northern Xinjiang Railway greatly enhanced the vitality of economic growth in the two Mongolian autonomous prefectures of Bayingolin and Bortola, which for a long time had been poor, backward, and closed off. Again, for example, the harnessing of the Tarim River and the building of the (Kemur) Reservoir greatly changed the conditions for Aksu's economic development. In setting up these facilities, a certain number of local minority nationality staff and workers should be taken in. Third, in inputting the state's special-item funds particular emphasis should be put on minority nationality areas that have a weak economic foundation but that also have the conditions for development; and the loans to help the poor should, in a targeted manner, help these minority nationalities in the development of production and business projects. The Spark Plan and the Bumper Harvest Plan should also tilt toward these areas. Fourth, strengthen the construction of traffic and communication lines, and the construction of cultural, educational, and public health basic facilities; improve the conditions for linking up with the outside world; and improve the quality of the people's skills and education. Fifth, some policies for looking after minority nationalities should still be upheld and reiterated; and on questions of type of optimization constituents and personnel streamlining, consideration can be given, on the basis of the original number of staff and workers, to increasing or decreasing them proportionally.

We must both resolutely take the path of building the socialist market economy and resolutely implement the party's nationality policy; any case of one thing and neglecting the other will have bad consequences. The common wealth of all nationalities—this is our final goal; deviation from it is deviation from socialism. However, we must also recognize the disparities between the nationalities in the aspect of developing the economy, and must not practice equalitarianism, must not "quick march," and even less can we pare down the rich to help the poor. We should permit some people to prosper before others, and, under this premise, have the wealthy help the poor, and have the wealthy replace the poor. It should be seen that the imbalance between the nationalities in economic development, and the difference in the rates of becoming prosperous caused by this imbalance, cannot be resolved within a short period of time, like the state of imbalance in development between the interior and the coastal regions. In line with Comrade Deng Xiaoping's idea, at the time in the future when economic development reaches a very high level, this problem can be thoroughly solved. If the development of the coastal regions is restricted now, or "evened up," not only will the coast be harmed but also in the end the interior will be harmed. Resolving the disparities in economic development between the nationalities is also in line with this principle.

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